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P. P. C. Photo

Economic co-operation between the United States and Latin-America was never more essential to the strategic safety of the Western hemisphere than it is today—and never more difficult to achieve. The potentialities are outlined by authors Horoth and Travis on pages 252 to 257, inclusive.

With The Editors

Inflation of What?

BY LAURENCE STERN

THE reading public has been deluged with books, pamphlets and articles on "inflation" ever since Mr. Roosevelt began his laboratory experiments back in 1933. And since financial writers have differed widely in their definitions and applications of the term, it is not surprising that the average layman is confused.

You were warned that the changed gold content of the dollar meant inflation—but nothing exciting happened to commodity prices or your cost of living. Today you are being warned that fast rising Government debt means inflation. As a matter of fact the basis for some degree of selective commodity price inflation is now the strongest in many years. Price inflation is really caused when demand for goods exceeds the available supply; and, due to the great stimulation of demand by the war and armament orders, exactly this condition confronts us. The rising Federal debt is a co-incidental factor rather than the direct cause.

But what chiefly concerns most individuals is whether an important rise in the cost of living can be expected. The answer is no. Let's look at it from a non-technical, common sense angle.

Take food. We have a perennial glut of farm products, with the Government exerting itself to prevent price collapse. There is no economic basis for major rise in food costs. Next, look at rents. Excepting in a minority of communities especially affected by the armament boom, there is no housing shortage. Why should rents go up?

There is clothing, household equipment and automobiles. The tendency here is up but the demand is optional and postponable, the customers are addicted to shopping around and price has to be attractively related to purchasing power to maintain sales volume. In this direction I don't see any significant inflation for some time to come.

Finally, large in the aggregate, are such miscellaneous items as utility services, insurance premiums, operation and maintenance of your car, interest on debt, taxes on your home if you own one, medical and dental care, the cook's wages, amusement and recreation, Junior's college bills, etc. Most of these costs are either standard or fixed. You needn't fear any substantial inflation in this general area.

The Government can and will cope with inflationary tendencies in a minority of shortage commodities for which the armaments needs have created urgent demand, but in any event these commodities have no important relationship to your cost of living. That covers most everything—except income taxes. And here we run into painful reality. Unless you are very poor or very rich, your income tax is going to be inflated.

Such is the inflation prospect for a goodly time to come, as it appears to me.

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* * * IN THE NEXT ISSUE * * *

IMPACT OF 1941 TAXES ON CORPORATE EARNING POWER

By Ward Gates

Considerably increased corporate taxes are a certainty for early 1941 and are already casting their shadow over the security markets. It is possible to make prudent allowance for them in today's investment planning, even though rates and formulas are conjectural. This article shows you how.

HOW CAN BRITAIN PAY FOR AMERICAN FINANCIAL AID?

By V. L. Horoth

When the need becomes urgent, methods will be found for American financing of British war purchases in this country. The moot question is whether the money will be given away at the expense of our taxpayers. Is there a feasible way of securing the loan with real assets?

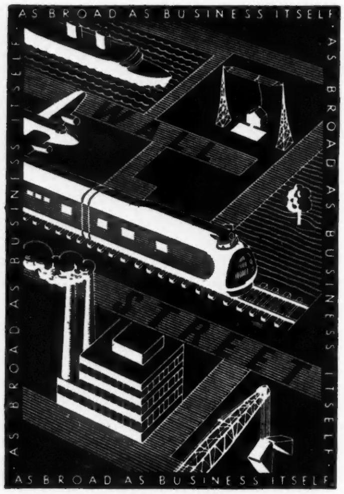
BEHIND THE SCENES WITH THE NEW CONGRESS

By E. K. T.

Our Washington correspondent, whose inside reports on Capital developments have frequently scooped the nation's press, now gauges Congressional sentiment on key measures and policies confronting the next session. Don't miss his forecast on taxation, Johnson Act, Wagner Act and other legislation.

THE MAGAZINE OF WALL STREET

C. G. WYCKOFF, *Publisher* : LAURENCE STERN, *Managing Editor*



The Trend of Events

LOANS TO BRITAIN . . . An overwhelming majority of the American people favor the policy of providing maximum aid to Great Britain but aid short of direct and full participation in the war. The time has come, in this publication's opinion, to do some realistic thinking as to just what this means. The plain truth is that it means we are partly in this war and partly out of it. We are trying to eat our cake and have it, too.

The following insistent questions present themselves: Under the half-way policy can we supply enough aid to prevent British collapse? Would the vital interests of the United States be jeopardized by such a collapse? Under the scale of American aid now being rendered, is Britain in real danger of defeat by spring?

Far less urgent than these questions is the entirely separate question—which we are now beginning to debate—of extending credits to permit continued long term British purchases of American war goods. It is conceded that the British have enough dollar assets to last well into next year, possibly until next summer. But if—as many observers believe—Britain's supreme test will develop between now and spring, what good would credits do? She has already ordered and paid for more American aid than we can deliver for another year or two.

We should put first things first. Is Britain close to defeat? If so, is there compelling reason of national interest why we should abandon half-way measures and go "all out" in extending aid? Could we or could we not extend more effective aid by direct participation as a belligerent? Before the election most people—including the English—answered the latter question in the negative, but now they are less sure. It is perfectly obvious, for example, that our Navy could be of greater help to England if we were at war.

It seems to be the way of democracy's politicians to dodge the hard questions, the unpopular questions, the most urgent questions. They will have to be faced eventually. It would be better to face them now, for next spring or summer might be too late. The choice is fatefully difficult. The President should lead the way in opening it up to free and frank public consideration. Drift is no solution.

PUTTING ON THE BRAKES . . . Because he is chairman of the Federal Reserve Board and an outstanding advocate of the use of Federal monetary-credit policy to "compensate" the private economy, the contention of Marriner S. Eccles that the time has come to tighten up the inflation controls invites thoughtful consideration.

Mr. Eccles, right or wrong, is consistent. In mone-

tary management he believes in stepping on the gas under conditions of economic deflation and widespread unemployment, but of applying the brakes as business and employment rapidly rise and incipient boom tendencies develop. Among his recommendations are the following: Permit some rise in interest rates on Government obligations to attract genuine savings into such securities; consideration of means to sterilize future gold imports to prevent them from further inflating the bank credit base; a sufficiently drastic rise in member bank reserve requirements to wipe out a major portion of present excess reserves, thus strengthening the Reserve System's control powers through open market operations; and cancel various of the Treasury's monetary powers which overlap or could conflict with the powers of the Reserve System.

The Treasury—chief beneficiary of the easy money policy—can hardly be expected to submit meekly to higher interest rates or to having its wings otherwise clipped; and we doubt very much that the arguments of Mr. Eccles will convince the President.

As for the inflation threat, we already have an extreme inflation in prices of high grade bonds, and there is no easy or painless way out of it. In our opinion, the steps favored by Mr. Eccles would have serious deflationary consequences upon the bond and stock markets and might adversely affect business activity which is not fully guaranteed by the armament demand.

This is a Government-financed industrial boom, not a speculative private boom. We are convinced that under present world and domestic circumstances the threat of a serious commodity price inflation or of any type of private speculative excess is more imaginary than real. It would be wise to safeguard the *Federal* credit as far as possible because enormous and unpredictable demands will be made upon it both throughout the war emergency and in the post-war period of economic readjustment. But the danger does not lie in private utilization of bank credit. Regardless of central banking policy, production of armaments on a vast scale must of necessity distort our economy and the termination of such production will involve difficult adjustments. As early as the summer of 1936, Mr. Eccles thought it wise to begin putting on the brakes. He proved to be mistaken—and from an incomplete business recovery we moved into a depression.

EXPANDING STEEL CAPACITY . . . Although only a small portion of present steel production is going into actual armaments, the industry is operating virtually at capacity. The defense program's steel requirements, however, will increase greatly and progressively over the next year or two. These circumstances have raised a moot question as to whether a major expansion in steel-making capacity must be undertaken.

No clear-cut, general answer is possible and many far from simple factors are involved. For one thing, building of any important amount of new capacity would take at least a year and probably would be a tardy solution—especially so as regards the urgent matter of getting war goods to Britain in a hurry. Hence forced curtailment of civilian consumption of some types of steel may become essential regardless of any expansion program.

But there is a much more serious bottleneck in armament fabricating equipment than in supply of basic steel. For example, it is estimated that only 500 tons of steel are required for 100,000 rifles and that the steel required for 10,000 machine guns is no more than that needed for about 200 freight cars. The controlling shortage here is not steel but capacity to make rifles and machine guns. Ships and shells require large tonnages of steel, but here the key bottlenecks are also either on the fabricating end or in specialized steels—for example, armor plate—that can't be had merely by diverting sheet steel from the motor industry.

The answer will have to be something of a compromise. Leading companies, notably Bethlehem, are launching at their own expense expansion programs within limits which the managements believe to be prudent in relation to probable post-war demands. At the same time the Government is financing certain additions to capacity of types that would be a dead loss except for defense work; and if the administrators of the defense program believe a much greater expansion is needed, certainly the Government should foot the bill or safeguard the added private investment. In any event, resort no doubt will have to be had to selective priorities.

NOT THE ANSWER . . . Defense contracts awarded up to November 1 should provide jobs for nearly 4,000,000 workers by June, 1941, according to an estimate made by the National Industrial Conference Board, but would still leave some 4,400,000 unemployed.

The employment outlook, however, is probably substantially better than this estimate implies. In the first place, additional national defense orders will assuredly be awarded. In the second place, the estimate does not allow for employment gains in non-defense activity, which is being greatly stimulated in secondary and tertiary reflection of the armament and war spending. Secretary of Labor Perkins has expressed the opinion that the defense program eventually will create at least 6,000,000 jobs, thus "breaking the back" of the unemployment problem.

Naturally, we are glad to see great numbers of the jobless going back to work, regardless of how the employment is being provided. But when we remind ourselves what the basic character of this industrial boom is, then we have no reason to rejoice or to congratulate ourselves. Hitler has also solved an unemployment problem, and his method differs only in degree from that which we are applying. This is not a permanent answer and it is not the answer which Americans would prefer.

Any nation can bring about a high level of employment if it drafts enough men into the armed services and spends enough money on armaments. To say that the jobs are being created *in* private industry is true but misleading. They are not being created *by* private industry. Public money is financing the new armament jobs and indirectly financing the new non-defense jobs. Such spending is necessary and unavoidable, but let us not kid ourselves. It's not much different from a super-W P A when you come right down to it.

As I See It!

BY CHARLES BENEDICT

THE NEAR AND THE FAR EAST

I HAVE found it very puzzling to observe the great emphasis placed on the extensive aerial bombardment of Britain—the sinking of her ships,—nowhere near the danger point,—in comparison with the tendency to make little of the serious defeats suffered by the Nazis.

It must be evident that the near collapse of Italy and the diplomatic failure of the Germans have combined to create a most difficult position for the Axis powers. Certain it is that Germany's plan of campaign in the Near and Far East will be greatly affected.

One of the first essentials for Germany is stability on the Continent. Yet, neither Spain, France, Jugoslavia, Bulgaria or Russia have signed up in the new European order. Considering the weakness of these countries, this signals a great diplomatic defeat for Hitler.

Moreover, groggy Italy, staggering from the blows delivered by Britain and Greece, produces a situation pregnant with grave dangers that far outweigh the advantages the Nazis have to gain from the elimination of Italian demands, which has been the main obstacle in meeting the terms of France and Spain. For, in the not too distant future, the Fascists may be forced to sue for peace or submit to a German protectorate.

If England can win Italy to a separate peace, the Mediterranean States, including Spain, France, Jugoslavia, Albania, Greece, Bulgaria and Turkey (with Italy as benevolent neutral), can be formed into a bloc to stall the Nazi war machine. It is definitely in the cards now that England has gained a foothold on the continent.

Italy's cupboard is almost bare, and the lifting of the blockade would be a godsend to the Italian people who cannot look to Hitler to feed them. Coal, for which her industry is now dependent on Germany, could then be secured from the British Isles, and as a neutral carried in Italian bottoms. Italy is in desperate need of most of the essentials which peace alone can assure, but the kind of peace exacted by Greece and England would not be helpful to the Nazis.

Events are accumulating to show that the German position is far from secure.

The accord recently arrived at between Spain and Britain permitting the release of blocked funds in London, against the purchase of supplies for which there is such desperate need, expresses an urgency which exemplifies the kind of economic obstacles that block Hitler's diplomatic offensive. But that is not all. In the latest moves, the forces operating against the Nazis seem to be reaching into the Vatican and are successfully influencing Petain in a France bitterly suffering under the heavy hand of Hitler. It is well to recognize that the members of the Vichy Government are Frenchmen first, with their first duty France. . . . Even pro-Nazi Laval won his title of Papal Count for his earlier efforts to establish a Latin-Mediterranean bloc against Hitler. On this side of the Hemisphere further evidence is accumulating to lead one to believe the election of Avila Camacho is a definite defeat for the totalitarian powers and a victory for the Vatican.

We can therefore see that recent events in Spain and France,—the appointment of Admiral Leahy to Vichy,

with his expressed interest in Martinique as a United States base,—and the sending of Vice President Elect Wallace to Mexico for the inauguration of Camacho are all one of the same piece which spell "setback" for Hitler.

And there is still more. The mysterious death of pro-Nazi Jean Chiappe, the new Vichy appointee as Governor of Syria, while enroute to his post—dealt another severe blow to the Nazis. Chiappe, strong and ruthless, —the former head of the French police, had been expected to hold Syria in line for the Axis, and to stop the Free French movement which has been gaining such tremendous headway in the French Colonies. Situated strategically to the Suez Canal, Syria was an important factor in Nazi calculations for the destruction of the British Empire.

Another reverse for Hitler lies in the strengthening of the British position on the entire African Continent as a result of the overwhelming disaster to Italian arms.

Nor is the uprising in Rumania and the growing unrest in the captive countries going to smooth the way for the Nazis. It will further delay Hitler's plans,—*and time is not on the side of Germany!*

In the meantime, the Japanese are carefully watching and realistically appraising every move in the Mediterranean. Any further weakness can unfavorably affect the Berlin-Tokio relationship if it is believed that the Nazi plan of strategy, which sought to make the Suez Canal the link between the European and Asiatic ends of the Axis, has been frustrated.

Today, Great Britain controls the Mediterranean, and the practical immobilization of the Italian navy should now enable her to release part of her Mediterranean fleet through the Red Sea,—into the Indian Ocean and Singapore,—to keep the route open to Australia and New Zealand,—and generally strengthen the British Far East forces.

As a glance at the map will show, Germany's failure to conquer the British Isles has stalled the grandiose Berlin-Tokio plan to destroy the British Empire which called for the taking of Singapore by the Japanese fleet. By moving into the Indian Ocean to Aden,—and then to the Red Sea—Nippon was expected to put the finishing touches to the British fleet under attack by the French-Italian fleets and the combined Axis forces in the Mediterranean.

But now, thanks to the element of time, won by the heroic resistance of the British people, Singapore is no longer weak, while the Netherlands Indies, Australia and New Zealand have greatly improved their position through the strengthening of their defense. And last, but not least, is the fact that a United States Navy of decisive power is in the Pacific.

Japan

Face to face with this setup Japan is decidedly on the spot. What she will do depends in a large measure on the temper of those in power,—whether wisdom, or recklessness get the upper hand. (*Please turn to page* 286)

Year-End Market Outlook

The odds call for year-end rally, probably modest if it starts from the 130 base, Dow-Jones, but worth a trading play if reaction any time in December provides opportunity in the range 123-126.

BY A. T. MILLER

To bring the recent record up to date, the technical picture is as follows:

From the post-election high of November 9 at 138.12, Dow-Jones industrial average, the market reacted to closing low of 129.78 on November 27. This movement cancelled nearly 32 per cent of the entire intermediate advance from the low of last June 10. Over the same period our weekly index of 309 issues cancelled nearly 38 per cent of its previous intermediate rise.

This reaction was accompanied by a progressive shrinkage of trading activity. Thereafter for eight consecutive sessions, November 28-December 6 inclusive, the closing level of the industrial average held within the range 129.96-131 on about as narrow a trading shelf as has been seen this year. Reflecting both accumulated technical strength and a tendency to celebrate at least mildly the Italian war reverses, fairly brisk rallying tendencies developed in the closing session last week; and modest additional gains—chiefly confined to heavy industry issues figuring prominently in the armament and war orders boom—are being recorded as this anlysis is written.

As yet there is certainly nothing at all dynamic in the performance of the averages, and it remains pretty much "a market of stocks." Especially hampered by the present tax set-up, numerous stable-earning issues continue to drag along close to the year's lows and among such equities sporadic new lows are being made here and there.

In contrast, the majority of cyclical stocks favored in the armament economy, and able to show substantial increment to profits after allowance for the heavier taxes, hold near the year's highs; and a fairly impressive number of new highs for the year are being made almost daily, although they remain much more numerous among preferred issues than among common stocks. New highs by Midland Steel Products and United Engineering & Foundry prove that equities *can* respond to favorable dividend news if it is powerful enough. But it certainly seems to require extraordinary stimulants to get such results, for in relation to total 1940 distributions the former equity is now priced on a yield basis of approximately 12 per cent and the latter of 10 per cent!

While there is no current basis for conviction that the market is an immediate buy for a trading rally, the seasonal odds over a very long period of years have been so remarkably consistent that we must definitely refuse to be pessimistic for the very short term between this writing and the close of the year.

Psychologically, it is by far the most hopeful season of the year. This is the only explanation for the fact that—under all kinds of conditions and in bull or bear markets—it has been statistically possible to buy stocks at some time in December and sell them profitably at some time in January in 42 out of the past 43 years. The exception was 1926, when the January high in the Dow-Jones industrial average was 10 cents below the December low.

Instead of averaging the December-January record for the 43 years, let us take a look at it for various periods. For the New Deal years 1933-1939, the rise from December low to January high—both on the basis of closing prices—averaged 10.13 points, the smallest gain being 6.25 points in 1934-1935 and the largest being 15.42 points in 1937-1938.

For the great deflation period 1929-1932, the average gain was 18.10 points, the smallest figure being 8.52 points in 1932-1933 and the largest being 36.25 points in 1929-1930.

For the so-called "normal" years 1923-1925, the average gain was 9.39 points. For the early post-war years 1919-1922—a period that saw both boom and depression—it was 6.39 points, the smallest rise being 4.39 points in 1922-1923 and the largest 10.01 points in 1920-1921. For the World War years 1914-1917 the average was 8.03 points, smallest rise being 4.03 points and largest 13.85 points.

During the pre-World War years 1910-1913 average gain was 5.59 points; and for the horse and buggy years from 1897 through 1909 it was 6.07 points. Certainly this is consistent enough—but the trick of determining, in advance, the timing of the December low is, unfor-

tunately, a horse of a different color and is not easy.

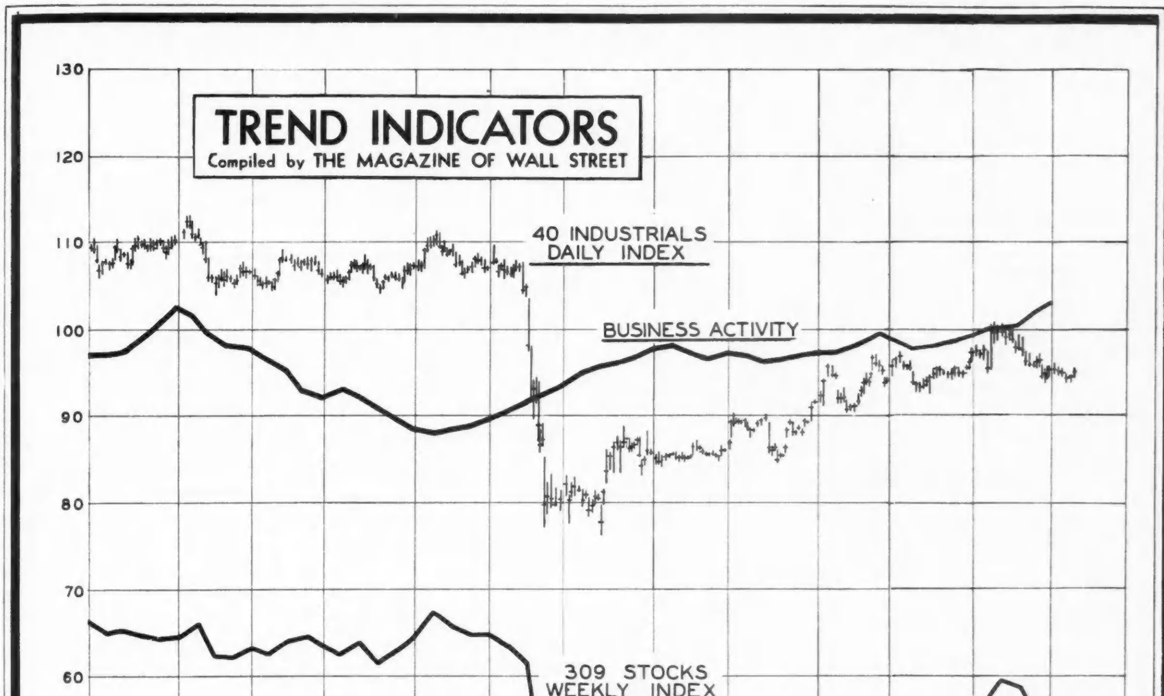
Averaging the timing over the 43 years gives a low at approximately December 14 and a January high on the 16th. In only 3 years out of the 43 was the December low made after Christmas, those years being 1937, 1926 and 1918. For the New Deal years 1933-1939 it came, on an average, on the 17th of the month—but last year it was on the 4th; in 1938 it was the 9th; and in 1937 it was the 28th; while the four years 1933-1936 gave a consistent performance with December lows between the 19th and 21st.

In case the resistance level 130, Dow-Jones, proves to be the base for this year's repeat performance we do not think the year-end rise will be broad enough to invite action by the followers of this article because, in our opinion, it will need the aid of some exceptionally favorable break in the news to better the November high of 138.

But in the event of further reaction this month—and we have tentatively in mind a possible buying spot around the 123-126 level—we would not hesitate to bet on the odds cited heretofore in expectation of at least a worth while trading rally.

In longer term investment for appreciation, caution—in the form of conservative liquidity and careful discrimination as to the character of issues retained—continues to be our watchword.

—Monday, December 9.



America's

In this troubled hour no intelligent mind can view the future with complacency. War and revolution are on the march. In nation after nation freedom and truth have vanished, terror and lies are dominant. The civilized, democratic concept—toward which mankind had laboriously struggled for thousands of years — is challenged as never before in modern times.

Many prophets assure us that, no matter how the war comes out, Great Britain is through with the pre-war brand of democracy and capitalism. Very likely that is true. And the same prophets tell us that the basic trend of things in America is also revolutionary, also toward socialism. Broadly speaking, they are right.

But words as general as "revolution" and "socialism" can mean almost anything one wants them to mean. The "American Dream"—a more free, more comfortable, more secure way of life for the people—is itself both a revolutionary and socialistic concept. Never has American public opinion—or English public opinion—long accepted any status quo as the best obtainable condition. It is a plain fact of history that our periods of "conservatism" have been merely interludes in the peaceful revolution which, intermittently but cumulatively, has established ever broader concepts of social justice and imposed ever more numerous socializing controls upon free capitalism.

I have sufficient vested interest in the capitalist system to make for a naturally "conservative" point of view. But I find it good for the soul—and for one's perspective—to turn away now and then from the newspapers and the radio and re-read American history. Let us be candid about it. Most of us or our kind opposed Woodrow Wilson, Theodore Roosevelt and earlier reformers as "radicals" and "dangerous men." But we now accept as both necessary and desirable most of their "impractical" and "socialistic" innovations of law and administration.

The trend toward a modified capitalism is not new, but has roots which run well back into our past. We began to socialize the capitalist system with the first regulation of the railroads and public utilities, the first pure food law, the first laws to eliminate fire hazards from factories, the first restrictions on sweatshop exploitation of the labor of women and children.

What is more "socialistic" than the Federal income tax, first adopted in 1913 and bitterly opposed by many? By this accepted device the Government takes any portion of my income it chooses to take, and spends it as it chooses—perhaps to support some less fortunate or deserving person on the WPA. Incidentally, the long term trend of income tax rates on all but our low-income

Top Photos by Gendreau
Bottom by Cushing

New Economic Order

THIS IS A REVOLUTIONARY AGE IN WHICH ONLY A MORE BENEFICENT SEMI-PRIVATE CAPITALISM CAN PROVIDE AN ACCEPTABLE ALTERNATIVE TO STATE SOCIALISM.

BY LAURENCE STERN

people is definitely and unquestionably upward. What is this if not redistribution of wealth and income? And is not the inheritance tax even more socialistic? In candor, we must note that the socializing of American capitalism began long before the political rise of the present Roosevelt.

In scope and number, to be sure, the New Deal reforms have exceeded those effected by any previous administration. Some of them are far from perfect in plan and execution. But in general can we deny that their principles conform with the authentic pattern of the peaceful American revolution—with the fumbling, groping search of the masses of the people for a better and more secure way of life? And when we recollect the excesses and abuses of the '20's on the one hand, and the economic dislocations and social stresses accompanying our greatest of depressions on the other hand, can we be really surprised at the scope and tempo of the reform movement of recent years?

As a matter of fact the doctrine of *laissez-faire* (let government mind its own affairs and leave business absolutely alone) was destined for inevitable and ultimate doom by the birth of the industrial revolution, which developed with ever greater speed during the last thirty years of the Nineteenth Century, which in the first quarter of the present century brought what James Truslow Adams has aptly called the Age of the Industrial and Financial Dinosaurs, and which saw finance capitalism run riot at its apex of economic power in the decade 1920-1929.

Big Business vs. Big Government

Speaking of the tendency of finance capitalism to dominate industrial capitalism, as early as 1903 the Wall Street Journal—certainly not a socialistic organ—observed that it was "not merely a normal growth, but concentration that comes from combination, consolidation and other methods employed to secure monopolistic power. Not only this, but this concentration has not been along the lines of commercial banking. The great banks of concentration are in close alliance with financial interests intimately connected with promotion of immense enterprises, many of them being largely speculative."

Big Government is, of course, potentially dangerous, but in this age of radical economic change and world upheaval we can no more do away with it than we can do without the mass production techniques which Big Business has made possible. We can't go back to the days of either small business or small government.

It is vain to plead that government should be merely an umpire in the game, not a participant. Indeed, government began to be far more than an umpire many decades ago. What was the tariff except economic planning by government for the purpose of aiding the building up of a protected industrial economy? And if industry has a valid claim to government protection, can we deny the right of labor, the farmers or other groups to organize in self-interest and to obtain a similarly paternalistic protection?

For the duration of the war and the national defense emergency we shall certainly move further and faster away from reliance on private initiative, private investment and free competition—further and faster toward government-run-everything. When the emergency is over, no doubt the war-time controls will be abandoned or relaxed. But this does not significantly relate to the underlying picture. It merely means that the war will temporarily and greatly accelerate the powerful long-term trend toward Bigger Government and that the passing of the defense emergency will bring temporary pause or retardation of this trend.

The principle of government intervention in the economic cycle has been fully accepted by an overwhelming majority of the American people—including no doubt a large percentage of those who voted against Roosevelt in the last election. Suppose, for instance, we should again be confronted with a major depression such as that which began with the 1929 stock market crash. How many rock-ribbed conservatives are left who would argue that the government should keep hands off and let the deflation spiral run its course to the bitter end, regardless of the damage done to economic, financial and human values? I don't think there are very many.

What is the objective for which the so-called "common man" is yearning and which finds reflection in the New Deal? It cannot be precisely defined because the

"American Dream" remains, as always, amorphous. So far as the negative side is concerned, we can get at it very definitely. It is no type of dictatorship and it is no kind of ism that begins with a capital letter. On the positive side, I think I know—in very rough terms—what it is.

It is a more beneficent, humane, socially-responsible capitalism. It is a raised and more secure living standard for the common man—without any sacrifice of personal liberty and with the minimum possible surrender of private initiative. Somewhat vaguely, the "little fellow" favors enough government regulation of the capitalist system to prevent abuses, foster economic stability and encourage sound growth—but does not favor "too much government interference with business." Quite definitely, he insists upon retaining the privilege of becoming a capitalist himself up to the limits of his ability and energy.

Now, of course, you can't call the thing a program. It is a very general philosophy—formless, unscientific, experimental. No doubt it represents exceedingly loose thinking, but so did that amazing speculative jamboree of the '20's when, if Big Finance and Big Business had a program, it was something less than the last word in scientific planning.

Why We Have a New Deal

I have tried to remind you *why* we have the New Deal and *why* the New Deal's "left of center" philosophy is what it is. Neither I nor anyone else can forecast accurately how this groping experimentation is going to work out in practical fact. Maybe we are on our way to the more beneficent capitalism. Or maybe we are on our way to an Americanized version of State Socialism which can be disguised for some years by using the small "s" or simply by continuing to call it the New Deal. Then again—before we know anything like a conclusive answer—the common man may become sufficiently disappointed or ungrateful to have a try at another interlude of "conservatism." For the years just ahead, however, at least a few practical and pertinent observations can be made:

1. Through the probably extensive duration of the war and our national defense effort the right and power of government to regulate industry and investment to any extent called for by government's concept of the public welfare cannot and will not be challenged. Adjustment of the capitalist system to the common service in national defense will of itself involve a considerable socialization of aim and method—thus by the happenstance of events probably strengthening the majority public opinion which has come to hold that government should not only sit in at the directors' table of our economic system but should have, indeed, the controlling voice.

Some people are saying that Roosevelt, obsessed with the national defense problem, must and will call a halt on reform. But will the reaction of the American people to a defense crisis—and possibly a war crisis—be wholly opposite to that of the English people? I rather doubt it. And what do we see in England? Answer: we see majority public opinion calling for vigorous social and economic reform—bloodless revolution—not after the war but now.

You would not call *The Economist,* edited by Sir Walter Layton, a Communist journal, but consider briefly the following excerpts culled somewhat at random from recent issues:

"The view is spreading that the time has come for the State to guarantee to every individual a sufficient quantity of food, clothing, shelter and the acknowledged necessities of life. . . . The corollary to establishing a minimum below which none should fall is to set up maxima above which none should rise."

"The State is compelled to exert a dynamic control in the interests of the community and with the supreme object of increased production. The aims of a peacetime economy are different; but we may learn the methods by which a controlled economy can be worked, and we may begin to create a race of men as competent to administer British industry in the general interest as their grandfathers were to administer the other functions of the State."

"In the economic and social fields the technique needed for war is not so very different from that needed for peace: the organization of production and the equitable distribution of the resources available to the community."

Obviously, our own national defense program involves the organization of production—under the leadership of the government and financed (*Please turn to page* 293)

Charles Phelps Cushing Photo

Raw Materials for Defense

Much progress has been made in augmenting supplies of strategic and critical commodities that would be vitally necessary in war and another year will put us in the clear.

BY E. K. T.

Gendreau Photo

It's a military secret just how many tons of strategic and critical raw materials the government has on hand in its reserve stock piles, but it is no secret that the United States is infinitely better off in this regard than it was during the world war.

To start with, the U. S. is more fortunate than any other nation in the variety and abundance of natural raw materials. During the past 20 years American industry has located and exploited new sources of raw materials, has developed the synthetic production of others, has entered commercial production of manufactured articles formerly imported, and has evolved acceptable substitutes for still other essential materials. There are still a dozen or so vitally important raw materials which we don't produce in important quantities and for which there are no substitutes, and the government is purchasing reserve stock piles of most of these and is regulating their exportation. If a war closed both oceans for any length of time American industry would be hard put to maintain production of many commercial articles, but through distribution control the military services would be supplied for a very considerable period.

Right after the close of the world war the Army drew up three lists of materials it would need for another war: strategic materials, which are absolutely necessary and almost entirely imported; critical materials, difficult to obtain in a crisis but less vital; and essential materials, which are needed but of which we have plenty such as lumber, coal and oil. The 1921 list had 42 strategic materials, the 1938 list had 21, and the 1940 list has 14, which shows the progress made toward self-sufficiency.

Two years ago Congress authorized building up a reserve stock pile of strategic and critical materials to be kept off the market except in times of national emergency. More recently the R.F.C. has entered the picture through its subsidiaries, Export-Import Bank, Metal Reserves Company, and Rubber Reserves Company. Also private industry has been encouraged, and in some cases given financial assistance, to build up its own reserve stocks for commercial use. A detailed inventory of where we stand on all essential materials is known to the Defense Commission but the figures are confidential. However, enough information has been released from time to time to show that there are few serious weak spots and that these are being reinforced rapidly.

Strategic metals giving the most concern are tin, tungsten, antimony, chromium, and manganese, all essential for alloys. All but tin can be produced in this country in limited quantities. R.F.C. has contracted to buy 75,000 tons of Malayan pig tin (about a year's supply) if the price does not exceed 50 cents a pound, and hold

it for three years. Three recent R.F.C. loans to China will be paid off partly in tin, partly in antimony and tungsten. R.F.C. has also contracted to buy enough Bolivian ore to yield 18,000 tons of tin a year, but first a smelter must be built in this country and plans for this have been held up for months. All three tin plans have big ifs in them, and should there be a hitch we would have to ration uses and use substitutes such as glass, paper and lacquer-lined containers for food.

We have plenty of low-grade manganese in this country and new processes make some of it usable in steel-making. Both domestic and foreign manganese is going into the stock pile, and as long as we can get ore from Cuba and Brazil there will be no shortage. We produce some 10 per cent of our antimony requirements and this can be increased, and Mexican and Bolivian ores can make up the balance if China can't deliver. Reserve stocks are small as yet. Domestic chrome production is small but could be boosted at a price, and since the best ore comes half way around the world, reserve stocks are being bought rapidly. We already produce more than half our tungsten and ore can be had in Argentina and Bolivia if Oriental sources are cut off.

Nickel and mercury are other metals on the strategic list, but nothing is being done about them. Nickel comes from Canada, and the presumption is that the supply is not in danger. Since the Spanish civil war disrupted the mercury market U. S. production has increased and we are currently producing more than normal requirements.

Rubber is the most important item on the strategic list. R.F.C. has received most of 85,000 tons promised in a cotton barter deal with Britain, and has contracted to buy 320,000 tons more if the price is kept to 20 cents, which it may not be. Commercial reserves are up to normal, and if we get delivery on our contracts we will have a good year's reserve supply which could be stretched to two years by rationing and increased use of reclaimed rubber. Recently developed synthetic substitutes are replacing some natural rubber where special qualities warrant their higher price, and real synthetic rubber could be produced at from 25 to 100 per cent above the cost of natural but a year or two would be required to build the plants. The government is considering subsidizing some synthetic plants, and is also spending money to develop rubber plantations in Brazil and Central America, but this is a long-time program.

The rest of the 14 strategic items are: coconut shells for making gas-mask charcoal, but a new chemically-activated wood charcoal is an acceptable substitute and plants are being constructed to produce it here; manila fiber for cordage, available from the Philippines and big reserve purchases have been made; sheet mica for insulation, not being bought for reserve but other materials can be substituted for many uses; quartz crystal from Brazil for radio and optical instruments, small reserve stock purchased; quinine from Netherlands East Indies for treating malaria, very large reserve purchases have been made, much of it delivered, and synthetic drugs made here are said to be a satisfactory substitute; silk for parachutes and powder bags, no reserve stocks are being bought since that would be a bonanza to Japan, but rayon and nylon probably would serve in a pinch.

That completes the list of raw materials of high strategic importance, and its brevity shows how well off we are, compared with other nations. There are many other items on the critical list, both domestic and imported, of which shortages might develop in case of extraordinary war demand or cessation of ocean transport, but in every case we could do without, use substitutes, increase domestic output, or get along on supplies diverted from less important uses. Exports of many of these are now being controlled to prevent depletion of commercial stocks.

Some of the more important critical materials, many of which gave much trouble during the world war, follow:

Aluminum—existing plants and those under construction will supply all anticipated needs; nearly half the bauxite (aluminum ore) comes from Dutch Guiana, which probably will remain accessible, but domestic deposits probably could produce fast enough for all requirements if necessary.

Iodine for medicine—formerly entirely dependent on Chile, U. S. now can produce all needed.

Opium, source of morphine—all comes from Near East and no substitute, but under prodding and permits from the Government, domestic manufacturers have some three year's supply locked in safes.

Optical glass—we can make all we need if necessary.

Wool—we don't produce enough but can use substitutes, and England has agreed to store a year's supply in U. S. bonded warehouses which we could purchase if needed.

Asbestos—most comes from Canada, but supply not

Triangle Photo

Priorities may have to come in the steel industry.

Courtesy Copper & Brass Research

The supply of copper presents no real problem.

in danger and there are substitutes for some uses.

Camphor—necessary for plastics and films; formerly Japan had a monopoly, now we synthesize all we need.

Cork—all imported and no exact substitute, but we could get along without it.

Cotton linters—source of cellulose and explosives, a scarce item during the war but now we could use any kind of raw or waste cotton or even wood cellulose.

Magnesium—for light-weight alloys; U. S. has recently become large producer through new process for extracting from brines and sea water.

Nitrogen—for fertilizer and explosives; in world war we were entirely dependent on Chile, now we are self-sufficient and new plants under construction will meet war-time demands.

Potash—chiefly for fertilizer, formerly entirely dependent on Germany and France, now our own mines yield all needed.

Toluol—ingredient of TNT; in world war we were limited to by-product output of steel-mill coke-ovens but now we can make any quantity from petroleum and plants are being built to do this.

Sulphur—in 1914 we were a heavy importer, now a heavy exporter.

High octane gasoline—a new product and we make practically all of it. We have plenty of raw material and plants to make additional blending agents can be built on short notice. A stock pile was projected but postponed as not needed yet. One of the ingredients, tetraethyl lead, is made with bromine which we produce from sea water and are now storing inland.

Molybdenum—U. S. is more than self-sufficient.

Vanadium—we produce half our needs, import balance from Peru.

Platinum—once vital, but many substitutes have been developed, and our jewelry stock could be used in a pinch.

Leather—we import 12 to 60 per cent of different kinds of hides, but this hemisphere could supply most needs, and rationing and fabric would supply the deficit.

Fibers—hemp, jute, kapok, oakum, and sisal are all largely imported and difficult to substitute, but their lack would not be fatal.

Many other important raw materials of commerce are imported, but the experts figure we could get along somehow in war-time with stocks on hand and what we might be able to get in, and none of them are vital to a war machine. Foodstuffs, oil, coal, lumber and building materials are no problem as long as the transportation system holds up.

Steel, copper, lead and zinc are not strategic because we have ample raw materials, but production capacity may be a problem, particularly for steel and copper. With copper it is largely a matter of price, for high-cost mines come into production at various levels, but as a price lever and to prevent a temporary shortage in case of a spurt in consumption the government is considering buying some Chilean copper as a reserve. Talks are under way with the zinc industry to increase its smelter capacity.

Steel is a hot subject of debate within the administration. With steel plants running practically at capacity now, one school thinks the government should build a new plant if industry won't (some want a government steel plant as a prudent defense reserve, others as a yardstick over the industry). Another school sides with the industry in the belief that the present peak demand will be temporary and that present capacity will suffice if defense orders are staggered, commercial inventories kept at reasonable levels, private orders made subject to voluntary preference or priority orders, and perhaps some temporary limitation put on use of steel for non-essential articles such as new model automobiles and refrigerators.

Machine tools, while far from a raw material, are listed as a critical defense item, and the government has already done about all it can about this, by restricting exports and imposing priorities on machine tool orders. Every essential article, whether raw material or semi-fashioned, has been surveyed by the Defense Commission, and the experts know just where and when shortages may develop in supply or fabrication and have made plans to meet these shortages. Some of the plans are still on paper, others are well under execution. They won't say for publication just where we stand, but from information made public at different times and places it is apparent that if we were shut off from all imports except from the Western Hemisphere we could keep our economic machine running, even under war-time demands, for many months before serious shortages develop. And with another year to build up reserve stocks and increase production facilities the U. S. will be set for any defensive test.

Severin from P.P.C.

The Harbor of La Guaira, Venezuela.

Part I—U. S. and Latin American Relations to Date and the Outlook

BY V. L. HOROTH

In our last number we laid stress on the necessity of preparing the way for our military collaboration with Latin American nations by helping them to become economically and politically stable in order to resist the aggression of European powers. We pointed out that loans, silver purchases, and the buying up of commodity surpluses can be but *temporary reliefs* of present economic strain on Latin American countries and only *temporary purchases* of their loyalties. We emphasized that a more fundamental cure of political and economic instability of Latin American nations can be accomplished only by a persistent and patient raising of their standard of living through general diversification of their economies, industrialization, and the development of new markets and new products. We admitted that in order to realize Western Hemisphere defense it might be necessary to change our present commercial policies and even give much, where little can be expected in return. Only then we can with a clear conscience, unafraid of being accused of interfering with their internal affairs, ask our Latin American neighbors to be our loyal allies.

Nowhere are the need of fundamental cure, the complex nature of problems involved, and at the same time the difficulties of rendering our aid, better illustrated than in the case of Argentina and Mexico. Here are two Latin American countries in which economic pressure has particularly increased in the last few months. Here are two countries especially susceptible to totalitarian propaganda; Argentina, because of large German and Italian minorities, to the fascist brand, Mexico, because of past pro-Soviet leanings, to the communist brand. Strategically, both of them hold key positions: Mexico at our southern frontier and as the producer of petroleum, Argentina at the tip of the Continent and as the world's largest producer of surplus foodstuffs.

They are also two extremes, for no two Latin American countries resemble each other less. Argentina has perhaps the highest standard of living, and Mexico one of the lowest, among the Latin American nations. The economic crisis in each country has in its very nature entirely different causes, and consequently requires different cures. In Argentina, in the ultimate analysis, the crisis is due to external pressure, the accumulation of commodity surpluses that cannot be marketed abroad because of the war. In contrast, in Mexico, the causes

Beneficiaries of Western Hemisphere Solidarity

are internal, for though the crisis has been also aggravated by the war, it is primarily due to the inability of the country to expand its output of goods. And to finish: the United States is perhaps less able to render efficient assistance to ease the economic strain in these two countries than elsewhere in Latin America: in the case of Argentina, because we cannot very well absorb the surpluses of her agricultural products in preference to our own; in the case of Mexico, because of the present hostility of the country's rulers toward foreign investments.

Although the economic conditions in Argentina began to grow worse shortly after the outbreak of the war, the real trouble started after the collapse of France, when it became obvious that some 40 per cent of the country's exports would be lost "for the duration." The material help that was to come from the United States, in the form of increased purchases of Argentine products, did not fully materialize, although Argentina bought during the first war year about $53,000,000 more American goods than she did in the corresponding period a year ago. Only our wool and hides takings increased, but the imports of linseed—the crop in which we could have helped Argentina most effectively—remained small, because of a large domestic harvest. Great Britain, true enough, increased her purchases of Argentine products, but the clearing agreement concluded between the two countries last June has blocked considerable sterling balances which Argentina normally used to pay for the excess of imports from the United States. The inability to obtain the necessary producers' goods, machinery and motor vehicles from Great Britain, at the time when they were particularly needed, has aggravated the situation.

With the volume of exports declining during the third quarter to almost one-half of last year, the excess of imports aggregated almost 120,000,000 pesos. Exchange difficulties grew worse and the imports from the United States had to be scaled down closer to the level of Argentine exports to us. For a few weeks, even the issuance of import permits for American goods was suspended. As if this were not enough, the shortage of shipping interfered with coal imports for railways and domestic industries. All these difficulties in combination with the loss of purchasing power of agricultural districts began to influence adversely domestic manufacturing hitherto fairly active because of the diminution of competition from abroad.

Yet by irony of fate, the country had this season one of the largest corn crops to sell. Of some 400,000,000 bushels of corn, less than 50,000,000 were exported, leaving a carryover of over 250,000,000 bushels early in November. The Government, to help the farmers, ordered the purchase of the crop, but because of an exceptionally wet winter, much of the corn became unfit for consumption and is now being used as fuel. With the old-crop corn problem only partially taken care of, a new crop of wheat, estimated at 250,000,000 bushels, and a new flaxseed crop are about to be harvested. Only about half of the wheat crop is likely to be consumed at home or exported. The remainder will have to be taken off the farmers' hands by the Government.

To cope with the growing economic strain and to relieve unemployment, the Argentine authorities have made every effort to bolster foreign trade and the activities at home. Diversification of farm production by expanding hog and dairy output is being encouraged with the help of Government loans. Trade agreements have been concluded in the last few months with Colombia and Brazil, the latter country agreeing to take up Argentine wheat in exchange for Brazilian textiles. An agreement with Chile is being negotiated. A public works scheme, similar to our own WPA program has recently been proposed. It embraces low cost housing,

Mexico Under the First Six Year Plan

Year	Lead Production (000 tons)	Zinc Production (000 tons)	Crude Oil Production (000 Cubic Meters)	Wholesale Prices (1929—100)	Cost of Living (1934—100)	Circulation (1934—100)	Exports (000,000 U. S. $)	Imports (000,000 U. S. $)	Budget Deficit (000,000 Pesos)	Coal Output (000 tons)
1935	184	136	6,397	95	109	113	209	113	†29.9	989
1936	216	150	6,522	100	114	135	215	129	†20.9	1,072
1937	218	155	7,457	119	139	166	248	171	†15.6	912
1938	282	172	6,121	126	153	179	185	109	†58.7	893
1939	219	134	6,819	127	156	205	177	†21	†46.4	628
1940 est.	205†	100†	6,400**	129	158*	231*	195*	135*	....	625

* June. ** Based on four month output. † Based on six month output.

James Sawders from Cushing

Subway entrance in Buenos Aires, South America's most modern city.

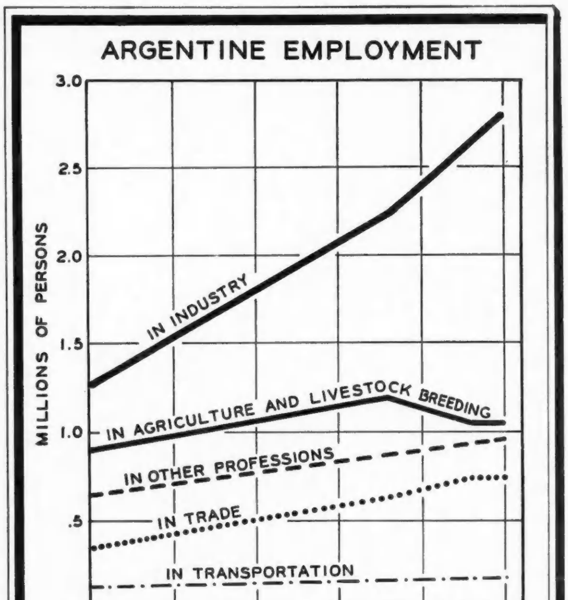
highway construction and encouragement to local industries in order to reduce imports of manufactured products. The cost was put at about one billion pesos, to be covered by a forced internal loan. Along with this project, a national defense program is being debated in the Argentine Congress, calling for an expenditure of at least $75,000,000, motorization of national forces, and the acquisition of 600 planes from the United States.

Both projects, public works and armaments, will require large purchases of machinery and materials. To facilitate these purchases, Argentine financial representatives arrived at Washington early in November. Originally it was intimated that only increased exports to the United States were desired, rather than loans. But last week it was announced that the United States Treasury would extend credits of $50,000,000 to Argentina for the purpose of stabilization of her currency and to make possible purchases of American goods, from our $2,000,000,000 Stabilization Fund. Another credit of $50,000,000 is expected to be soon forthcoming from the Export-Import Bank as indicated by its president, Warren Lee Pierson. This would be a second credit, the first one for $20,000,000 being granted by the Export-Import Bank last June. There was a hopeful rise in Argentine exports to this country in November, the monthly total exceeding $9,000,000 as compared with the monthly average of about $7,180,000 for the first ten months, due to our heavy buying of Argentine hides and wool.

It should be stressed at this point that neither credits nor loans will improve permanently the economic relations between the United States and Argentina and, for that matter, between us and any other Latin American country. They will merely increase the burden of debt service on Argentina's national debt in the future. Thus they will reduce dollar funds available for the purchase of our merchandise, and, if the economic strain should continue, even endanger Argentina's credit standing. Perhaps a happier but less immediate solution would be the participation of private American capital together with private Argentine capital in the development of public utilities, light industries, and natural wealth under the supervision of the Governments of both countries. At any rate, a temporary suspension of service on private debt would not be likely to endanger national credit.

The best solution of all would be, of course, the freeing of Argentina from bilateral trade arrangements, whereby the pound sterling balances now blocked in London would be made available in dollars for the sorely needed purchases of producers' goods in the United States. Our credit to Great Britain might lead to the reestablishment of triangular payments. A suggestion that we take over British holdings of Argentine securities would not only in the long run, aggravate the balance of payments between us and Argentina, but impoverish Great Britain and deprive Argentina of her best market.

The Mexican economic crisis has been of much longer duration than that of Argentina. It started in the Fall of 1936, when the Cárdenas Administration decided to accelerate the execution of the First Six Year Plan, following two exceptionally prosperous years, 1935 and 1936. The roots of the crisis lie in the ruthless application



of drastic social reforms and the program of nationalization of land and industrial enterprises. Since General Cárdenas assumed office in December, 1934, some 45,000,000 acres of hacienda land have been appropriated —for the most part without compensation—and turned over to the "ejidos" or communal farms, patterned on Soviet collectives. But whereas the Soviets provided their cooperative farms with machinery and forced them to raise the output, in Mexico, farm machinery has been abandoned, many improvements such as irrigation canals have been neglected, the peons concentrating only at the cultivation of enough land to provide themselves with foodstuffs.

In a similar manner the expropriation law passed late in 1936, furnished the basis for the nationalization of important industries (petroleum, several textile mills) and mining enterprises for cooperative operation in whole or in part by the labor unions. The organization of these cooperatives again was modeled on the Soviet type, but in Mexico, even more than in Russia, the lack of discipline, inefficiency in operation, and inadequate maintenance of the equipment have resulted in a decline of output. The effect has been disastrous, and in combination with the loss of foreign markets, following the outbreak of the war, the closing of many mills and mines has followed. The output of crude petroleum on the basis of the first four months of 1940 was 85 per cent of 1937, that of zinc 58 per cent (1938) and that of coal about 68 per cent (1937).

The inefficient operation of agricultural and industrial enterprises by labor unions and cooperatives not only brought about the decline in budgetary revenue, but produced large deficits which the Government had to foot. Deficit financing (through coinage of silver) and the contraction of the volume of national production of goods have always been the best recipe for bringing out inflation, and this has also invariably happened in Mexico. In four years' time the prices of foodstuffs went up almost 80 per cent and in the end the money wages of industrial workers, despite almost incessant wage increases, bought less than before the nationalization began. Neither were the farm workers any better off, as the prices of industrial goods have advanced even faster than those of agricultural products.

Increased Production, New Capital Vital Needs

The fear of inflation greatly accelerated the flight of capital, both domestic and foreign, which has been leaving Mexico ever since the nationalization program began. As a result, new enterprise was brought almost to a standstill and the peso exchange fell from 28 cents in 1938 to 16 2/3 cents early this year. Outwardly the inflation has manifested itself also by a building boom and automobile buying.

Both the retiring President General Lazaro Cárdenas and the recently inaugurated President, General Manuel Avila Camacho, have been well aware of the supreme need of increasing national production of goods. General Camacho, reported somewhat more conservative than his predecessor, made the increase of national production an issue in his inaugural speech. Reported also as favoring dissolution of the "ejidos" *(Please turn to page 292)*

Part II—

Effects on U. S. Trade and Finance

With Latin-American buying power in general at a low ebb, any change for the better as a result of current efforts would mean important gains for American capital invested there. The psychological relief brought by improved relations would not be the least of these, particularly in the investor's eyes.

BY H. F. TRAVIS

There are two hazards always present in the minds of any who risk a large investment in foreign lands. One is that their properties may be expropriated, the other that discrimination of some kind may be practised against them. Both have been potentially in the picture for American companies in Latin-America.

So far as actual damage goes, the Mexican expropriation of oil lands has been the only major example. Yet this threat has played its part in forcing company officials to mingle in the affairs of various countries, attempting to present their side of the case before the natural resentment against huge foreign interests could pass the reasonable stage. It has created a situation in which American companies have done good work in improving the conditions of their workmen, yet have been unable to keep local politicians out of the question of the right to operate their properties under the laws of the land.

Investors have mistrusted the whole setup. Very few individuals can take the time to study a foreign country thoroughly enough to feel sure of its future actions. Rather than take a chance on the friendly attitude even of those Latin-American nations which have always treated American capital well, they have put an arbitrary discount on any commitments abroad. Naturally, the events of the last few years in Europe and the Far East have done nothing to reduce the discounts.

But there now appears the distinct probability that this universal suspicion of foreign investments is working into a selective phase. In some territories the discounts are possibly not large enough. In others, the influences working for closer union with the United States offer good reason to hope that the future will be more favorable than could have been expected a few years ago. Latin-America is at least potentially in that class.

Take Mexico, for instance. There is little chance that the American companies will get their oil properties

returned to them, but they will probably be offered settlements which they will feel it wise to accept, as did Consolidated Oil. Some of them may again be installed as operators. The important point is that a clarification of future relationships must inevitably be a part of a better understanding between the Mexican government and the United States.

The most likely development is arrival at a workable basis for settling future disputes, so that American companies will feel free to put their capital into the country, sure that the worst that can happen is to receive an arbitrated recompense if it is taken away from them.

Howe Sound, American Smelting, U. S. Smelting and American Metal all have Mexican stakes of importance in relation to their total operations. For the last several years American Smelting has put no unnecessary money into its Mexican enterprises, which include the production of lead, zinc, silver, gold and copper, as well as ammonium sulphate, creosote, benzol, tar and coal. Net income from Mexican operations has bulked smaller each year in relation to total net, with less than 18 per cent so derived in 1938 and the trend continuing in 1939. The same general policy has been followed by the others —U. S. Smelting with its large silver and gold mines in the State of Hidalgo, Howe Sound with its silver, zinc and lead mines, American Metal with its Penoles mines producing the same metals and its partially-owned Mexican lead smelters, even Anaconda Copper with its Greene Cananea source of copper, silver, gold and molybdenite.

If these companies felt sure of their ground, two results would ensue. They would go after profits more aggressively in Mexico, spend more money and operate on a more efficient basis. Equally or more important to the investor—the weight over their stocks in the market would be considerably lightened.

Or take the two American copper companies in Chile, a slightly different case. There it is the fear of burdensome taxation that deters many investors from growing enthusiastic over these issues. Because of cheap labor costs both Anaconda and Kennecott can produce copper at well below typical American price levels, yet only within the last couple of years a new tax imposed on a sliding scale has been imposed. When their selling prices rise, their taxes do likewise. This would not be too much of a handicap if it were certain that their share of the burden of running the country would be kept to reasonable proportions.

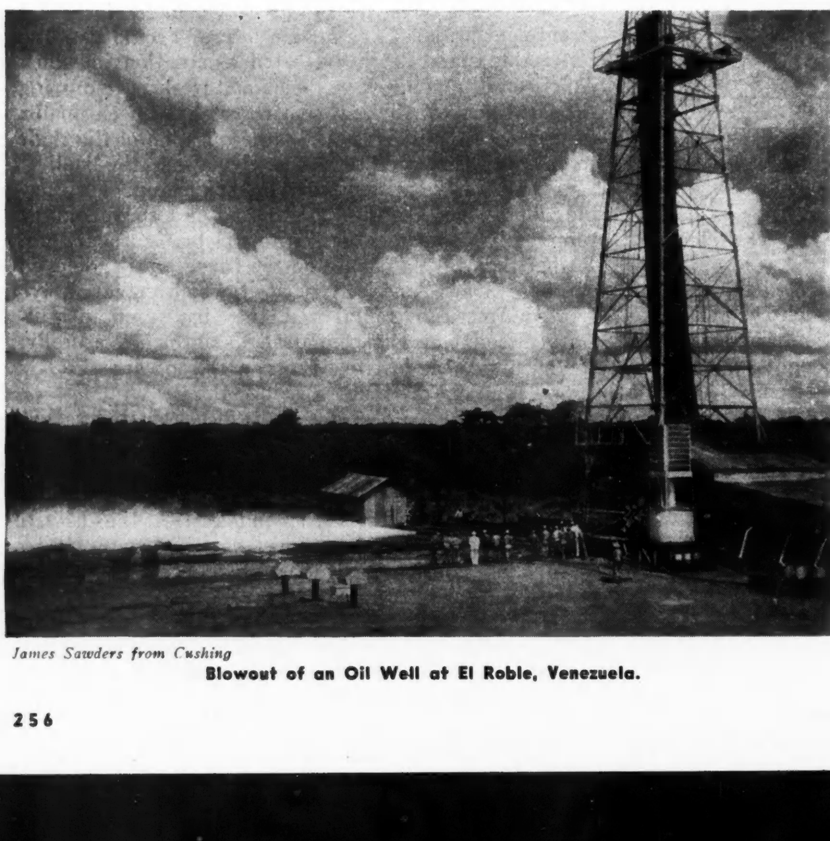
Any help from the United States, whether through loans, new inducements to trade freely with this country, assistance on exchange problems, or encouragement of new industries, accomplishes two desirable things. First, it induces a friendlier feeling toward all American enterprises. That of itself frequently means all the difference between profitable and unprofitable returns on the investment, or between losing and keeping the investment itself. Second, by strengthening the internal condition of the country it lightens the tax burden on those best able to pay, which is likely to mean the American enterprises.

Corporate Experience in South America

The United Fruit Co. is a good example of this. Operating all through Central America, its plantations depend upon outside demand for their products. But its ships, railroads, wharves, ports, telephone lines and communications do best when they are serving prosperous active territories. When times are good United Fruit does a larger business and runs less danger of any discriminatory taxation. If the United States is partly responsible for the improved conditions, United Fruit basks in the glow of friendship and competes (where it does) on better terms with local enterprises.

The large oil companies in Colombia and Venezuela have a different problem on the surface, but the same one basically. Standard of New Jersey, Socony-Vacuum, Gulf, Standard of California and others are in Venezuela; in Colombia, Texas Corp. takes the place of Gulf in the list. No active or present threats to their right to do business on a reasonable basis are seen. But nevertheless, to know once and for all that none could occur would be a tremendous help and would permit considerably sounder planning in developing their properties.

The two big American utility companies operating in Latin-America are International Telephone and American & Foreign Power. Their services are scattered pretty much all over the continent and neighboring islands. And both revenues and profits are sensitive to any change in the general tempo of business down there. International Telephone had a total gain of 31,258 phones in the first



James Sawders from Cushing

Blowout of an Oil Well at El Roble, Venezuela.

seven months of 1940. Out of this total, no fewer than 22,271 were gained in Latin-America alone. More active business, greater certainty of fair treatment, better public relations can all come from the current move to strengthen and solidify the hemisphere.

One or two companies have recently felt the effect of improvement in Cuba. Now, for reasons connected with the war, Freeport Sulphur gets its first return on a Cuban investment which has at times looked rather problematical. Its partially-owned Cuban-American Manganese Corp., declares a dividend of 50c a share and is showing earnings which will provide appreciable help for Freeport. American Metal's copper mine in Cuba may also turn in better results.

James Sawders from Cushing

Bolivia has the world's largest tin mine and concentrating plant.

Then there are the moving picture companies which have been hard hit by the loss of most of their important foreign markets. Depending upon exports for a third or more of their revenues, the outbreak of war in Europe put them strictly on the defensive, even in the few countries not shut off by the blockade. No nation at war can afford to allow its foreign exchange to go abroad to purchase amusement.

Latin-America seems for the time to be the only market offering any hope for sales increases. Almost all of these countries have been suffering themselves from lost European markets, and they are also laboring under serious exchange difficulties. In other words, it will be an uphill fight. But if American help brings prosperity to South America, that will furnish the money and the goodwill to bolster the movies' foreign receipts. There are about 5,300 theaters in all of Latin-America, with Brazil's 1,450 leading. A pickup here would be a strong restorative to the whole American film industry.

At first glance it is difficult to see why we should go so far in our helpfulness toward our neighbors to the south as to contribute money and technical guidance to build up a steel industry there. American steel companies pay their taxes to the United States Government, then the Government uses part of its funds to create competition in one of their markets. But this is a part of the broad scheme to foster activity and prosperity, not only for the sake of more active trade, but to prevent inroads on the part of European or Far Eastern meddlers.

It is probably useless to attempt to keep Latin-America indefinitely in the class of raw material producer and finished product consumer. If successful, the policy would constitute an invitation to other powers to seek a foothold there. Thinking of these nations as contributing colonies, in the way England once thought of the American colonies, is a mistake. Whether we like it or not, some of our manufacturing industries are going to have to compete there with local enterprises. The territory is at present one of our most potentially attractive markets for manufactured goods. It is also a promising source of materials we need badly to have close at home, such as rubber and tin. But the sooner we recognize the right of Latin-America to follow its star in whatever ways are economically feasible, the sooner we shall reach an understanding that will last.

U. S. Must Play Leading Role

Not only must the United States take the initiative in promoting the economic welfare of our southern neighbors, but it must be prepared to assume at the same time the multiple roles of banker, creditor, merchant and customer. All efforts must bear the stamp of sincerity, or run the risk of bogging down under the ban of "Yankee Imperialism." Obviously there is no quick and easy solution to the problem, yet in actual practice the difficulties, which now seem almost insurmountable, may prove much more apparent than real. A serious problem may evolve into a genuine opportunity. Much will depend upon the skill, sympathy and patience with which the solution is approached.

All of this suggests to the investor a changed attitude toward those American companies having commitments anywhere south of the Rio Grande. Of course, if we were sure that Latin-American affairs are in a definite and strong uptrend the greatest profits would lie in such securities as the various government bonds down there. That would be the true outright speculation on the success of the attempt to solidify the hemisphere. But as a compromise for the sake of conservatism, it seems preferable to look over the list of American companies having much to gain from such a development. Most of them are well-entrenched in the United States as well, with their Latin-American commitments acting in the nature of marginal inducements.

Another Look at the Bond Market

Whether Vulnerable to Near Term Decline or Not, Prime Bonds Offer No Attraction to the Individual Investor Today

BY J. S. WILLIAMS

It is the considered opinion of this writer that the most important fact to be borne in mind in any attempt to evaluate the outlook for bonds is that prices of high grade bonds are at or near an all-time high. Otherwise stated, bond yields are at an historical low. Bonds, like real estate or any other commodity, must be appraised in terms of their value to the prospective purchaser, but unlike real estate and commodities bonds sooner or later will bump into a price ceiling beyond which their value cannot and will not increase. If that ceiling has not already been reached, certainly it seems close at hand. There is no intention here to imply that bond prices, having toiled slowly up the slope and having reached the top, will immediately turn around and race down again. There are, however, a number of factors in the situation sufficient at least to lend considerably validity to the question as to whether as a practical investment matter it is wise either to purchase or hold high grade bonds at this time.

> "I have continuously advocated a policy of monetary ease as the appropriate accompaniment of a period of under-employment, but I have never favored artificially low rates such as have been brought about through an uncontrolled surplus of excess reserves. No such oversupply of excess reserves is necessary to carry out a policy of monetary encouragement to business recovery. Instead excessively low interest rates tend ultimately to induce inflated prices of governments, municipals and other high grade securities."
>
> —Marriner S. Eccles, Chairman Board of Governors, Federal Reserve System.

In order to more fully appreciate the present status of high grade bonds it is important to understand the forces behind the long bull market in such bonds. The chief motivating force has been the ardent support given to the philosophy of low interest rates both by the New Deal and the Federal Reserve Board. This policy has many ramifications but in the main it drew its original support from the belief that low interest rates would act as a powerful stimulant to business and industry, while at the same time permitting the Government to finance itself on a low cost basis. As a business stimulant it has been a dismal failure but its effectiveness in permitting the Government to finance huge deficits at an exceptionally low rate of interest cannot be denied.

But this extent of the effectiveness of the "easy money" policy was made possible only because the Government made absolutely certain that it would, through various banking controls and other monetary-credit devices. The argument is frequently advanced that, regardless of government intervention, the economic conditions which have existed during the best part of the past decade would have kept interest rates low, under the influence of an enormous supply of capital funds and restricted opportunities for capital to find profitable outlets. Actually, however, supply and demand have not been permitted to perform their normal function in determining interest rates and bond prices.

The extent to which the Government is able to throw its manipulative weight into the bond market has been demonstrated on three outstanding occasions in recent years. In 1937, measures taken by the Federal Reserve and the Treasury Department included the release of "neutralized" gold to expand excess reserves; the rediscount rate was lowered, although without appreciable effect; large quantities of bonds were purchased by funds under the jurisdiction of the Treasury; large Treasury deposits were transferred from Reserve Banks to commercial institutions; and the Federal Reserve engaged in large scale open market operations. In 1938, a lowering of reserve requirements was undertaken. Following the outbreak of the war in September, 1939, Federal Reserve System utilized some $400,000,000 in supporting the Government bond market, while the Treasury put up about $70,000,000 for the same purpose. The Treasury also used its influence to "convince" banks that the sale of Government bonds was unwise. The decline was halted and prices subsequently recovered and went on to new highs.

Consider also the manipulative power vested in the holdings of Government bonds by such divisions as not only the Federal Reserve System, but the Postal Savings System, Social Insurance Agencies, various Credit Agencies of the Treasury and State and Local Investment funds. Together these divisions hold 20 per cent

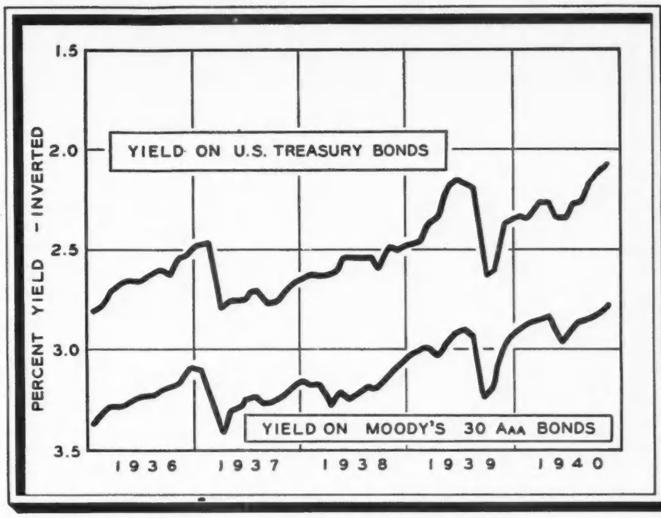
of the national debt, direct and guaranteed. They are at liberty to expand or contract their holdings as conditions warrant.

The Federal Reserve System, in addition to its practically unlimited powers to purchase Government bonds in the open market, has the privilege of accepting Government bonds at par for rediscount at the record low rate of 1 per cent. This virtually guarantees a bank that the value of its Government bond portfolio will not decline below par.

The Treasury still has at its disposal the $1,800,000,000 Exchange Stabilization Fund, which could be used to support the Government bond market, if necessary.

Somewhat more subtle, but none the less effective, is the pressure against banks to hold only the highest grade bonds, exercised through the medium of bank examiners. Not only does this tend to inject a considerable measure of artificiality into the high grade corporate and municipal bond markets, but it tends to insure an almost insatiable and continuing demand for Government bonds by reason of their superior liquidity and the rediscount privilege. On the books of a bank Government bonds can always be carried at a figure not lower than par, regardless of the prevailing market price.

And to make control of the bond market complete and to insure an indefinite and sustained period of low interest rates, the Government as a competing banker offers low-interest mortgages to the farmer and home builder. Even corporate and municipal borrowers are encouraged to seek Government financial assistance. The latest step in this direction was the announced intention of the R F C to furnish funds for preferred defense loans at the rate of 1½ per cent, while the top rate on other loans would not exceed 4 per cent. The effect is not only to lower interest rates on all mortgages, insurance policies and savings funds, but it leaves banks with an increasingly smaller portion of their funds employed in private loans and investments, forcing them to build up earnings assets through the medium of Government bonds.



Low Interest Rates Create Problems

It would not be natural if investors did not mistrust any market which was so dependent upon artificial support and directed manipulation. But so formidable is the supporting machinery at the disposal of the Government, that a period of low interest rates and high bond prices of prolonged duration is now generally accepted. At least this seems to be the conclusion warranted by the avidity with which investors buy up new issues of high grade corporate bonds. For example, on December 4, underwriters had no difficulty in promptly disposing of $53,000,000 Boston Edison 2¾'s due 1970 at 105.

Contributing to this belief in the virtual permanency of high grade bond prices has been the unfortunate experience of investors on more than one occasion in recent years when it appeared certain that the bull market in bonds had run its course. In September, 1939, bonds of all classes were subjected to large scale liquidation by investors impelled by the conviction that the outbreak of war inevitably would mean higher interest rates and lower bond prices. But under the leadership of supporting operations in the Government bond market, prices rallied and the entire bond market went on to reach new highs.

It is dangerous at any time for an investor to adhere to hard and fast convictions, and particularly so if they tend to lull him into what could well turn out to be a false sense of security.

The United States has embarked upon a national defense program of unprecedented proportions, requiring the outlay of staggering amounts of public funds and large scale financing. Closely related to this program, and vital to its success, will be the Government attitude toward interest rates. Evidence is accumulating, however, that this phase of the program is not being neglected in Washington. The question resolves into whether the financing of defense, and perhaps war, can be done to best advantage by continuing the easy money policies of recent years or will the exigencies ahead compel some modification of these policies in the interests of both financial and economic security?

Easily the most outstanding and surprising development in this direction were the remarks made by Marriner S. Eccles, chairman of the Board of Governors of the Federal Reserve System, in an address delivered before the National Industrial Conference Board. At this meeting Mr. Eccles, one of the most vigorous and articulate proponents of the easy money theory, executed a most complete and forthright about face. Let Mr. Eccles speak for himself.

"As long as we have a vast oversupply of excess reserves (now approaching $7,000,000,000), the inducement exists throughout the banking system to expand and put these resources to work in loans and investments. When the economy is reaching the stage of full production and employment that inducement should be removed. Not only do these excess reserves afford an opportunity for over-expansion but they also tend to depress the interest rate structure to excessively low levels. I have continuously advocated a policy of monetary ease as the appropriate accompaniment of a period of underemployment but I have (*Please turn to page 286*)

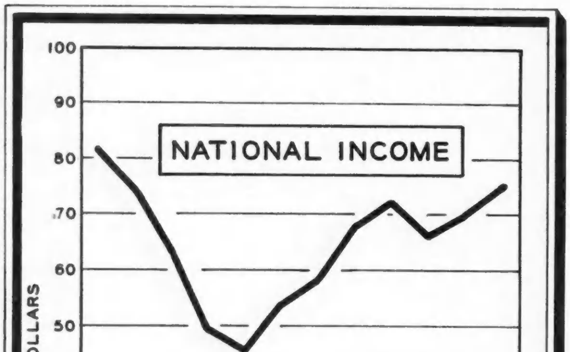
Farm Equipments Called to Arms

Government Orders Are Now Relatively Small but Substantial Future Volume Is Indicated

BY J. C. CLIFFORD

During the first World War the farm equipment manufacturing industry was one of the largest producers of munitions and other military supplies. The first year of the present conflict has not witnessed a repetion of the rush to buy, such as characterized the years 1914 to 1918, and so far the farm equipment makers have not played nearly so prominent a part although indications now point to early assumption of their former important position as suppliers of armament materials.

Orders for defense materials to date have been proportionately small. The largest part has been for tractors of various sizes. Actual munition orders to the agricultural equipment manufacturers have been in the vicinity of $1 million and the major recipient has been International Harvester Co., who did not completely dismantle its facilities built up during the last war. Nevertheless, most of the leading companies have received "educational" orders, which, while not large in dollar amounts, presage an early influx of full orders; to be placed as soon as the preliminary steps of mobilization of men and production power have been completed.



During the industry's fiscal year which was completed—in most instances—on October 31, government orders played a very small part in the operating results. It is estimated that farm equipment sales for the period amounted to approximately $500,000,000 as compared with $406,000,000 for the 1938-1939 fiscal year and $571,200,000 for the banner year of 1936-1937. Exports for the year probably reached a total of $75,000,000 as compared with $68,100,000 in the previous fiscal period. The gain in foreign sales was occasioned mostly by the fact that the fiscal period included several months at the outset of the war when both England and France were buying tractors and similar equipment. For the coming fiscal period it is not likely that exports will make quite as good a showing for now the entire continent of Europe is cut off from receiving shipments of American machinery and England has reduced the volume of her buying of such materials in the interest of conserving funds for what she considers to be more vital equipment. With Germany cut off from the South American markets it would seem as if American manufacturers were in a favored position to supply our southern neighbors' needs. This is quite true but these same set of circumstances makes our southern neighbors' needs considerably smaller than normal for it was Germany who consumed the largest individual share of South American exports and hence South America is facing a largely increased surplus of her own exportable products. Taken by and large, it would seem that the export division of the American farm equipment industry will make a much smaller contribution to income in the present fiscal period. But it is also likely that better domestic business and defense orders will more than make up the difference.

It is a demonstrable fact that farm equipment sales closely follow the trend of farm income. But there is always a lag between the farmers' receipts and expenditures for new equipment which was formerly a matter of nearly six months and now—due to more aggressive sales methods on the part of the agricultural equipment makers—is usually a somewhat smaller length of time. Therefore, 1941 spring farm equipment sales will be made largely upon the basis of 1940 farm incomes and, according to the Department of Agriculture's latest estimate, this will be approximately $9 billion as compared with

Farm equipment makers will benefit directly and indirectly from the defense spending, with tractors in especially increased demand.

Courtesy Caterpillar Tractor

$8.5 billion in 1939 and a post-depression peak of $9.1 billion in 1937.

Based upon better farm income alone, it is possible that farm equipment sales for the current fiscal year should be approximately 5 per cent higher than in the period just completed. In actual practice, it is probable that sales will be moderately better than that. Farm equipment is sold mostly as a labor saving device which permits a maximum of production with a minimum of man-power. The workings of selective military service and the attraction of young men from the farms to industrial centers will make the acquisition of as much mechanical farm help as possible not only desirable but almost mandatory if the present rate of production of foodstuffs is to be maintained. And, since the Department of Agriculture visualizes 1941 as a year of better demand and higher prices for farm products, it is possible that farm equipment sales will reach high levels and thus continue the trend of increased expenditures for farm machinery only infrequently interrupted in the past 30 years or more.

Most of the farm equipment manufacturers have announced their prices for the coming year and, with only a few exceptions, quoted prices remain at 1940 levels. With no change in selling prices it might be argued that an expected 5 per cent or more increase in sales would be reflected in a similar gain in net income. This would be true if raw material and labor costs would remain stationary for the same period of time. But it is not likely that such will be the case for there is almost bound to be some increase in wages to retain skilled workers who might otherwise be attracted to other, and better paying, manufacturers and while raw materials may go somewhat higher, there is also the possibility of a relative scarcity of certain items through the operation of priorities.

The industry has no immediate defense against the possibilities of higher wages but it has been endeavoring to anticipate higher raw material costs and possible scarcity by purchasing estimated requirements well in advance. Because of this effort to protect profit margins to as great an extent as possible, inventories are likely to show a sharp increase over those of a year ago although such increases at this time should be regarded as evidence of managerial foresight rather than the assumption of a vulnerable position. Corporate taxes will also take a sizable toll of manufacturing profits but since earnings are not likely to exceed the average for the past four years, excess profit taxes need not be considered at this time. Indeed, in estimating earnings of many farm equipment makers for the 1939-1940 fiscal year, excess profits taxes and increased normal taxes need not be considered, since the industry's fiscal year has deferred their application until the fiscal period now in force.

Most of the farm equipment manufacturers will fare very much alike as far as domestic agricultural sales are concerned but each of them has one or more special products or ability that makes some of its products of especial interest to other than agricultural buyers. As a case in point, take International Harvester Co.

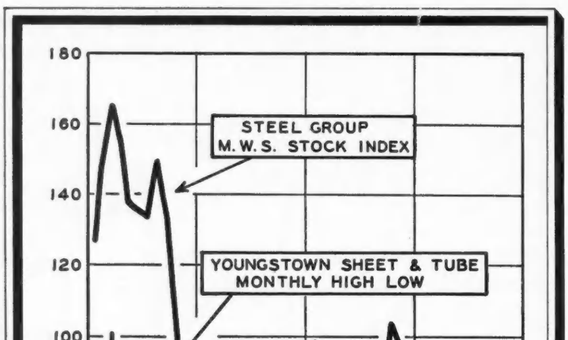
International Harvester is the largest of the country's manufacturers of farm equipment and, in addition, it is one of the country's largest makers of automobile trucks. Raw material costs are not quite so important to the company since it is one of the most fully integrated in the industry. It mines its own iron ore and manufactures its own steel and is in large measure independent of outside sources for much of its raw materials. On the other hand, as recently as last year approximately 30 per cent of the company's income from sales originated abroad; and the seven foreign plants located in France, Germany and Sweden, while not a total loss at this time, are in grave danger and are (*Please turn to page* 290)

Youngstown Sheet and Tube Strengthens Position

Increased Capacity and Lower Fixed Charges Help to Offset Higher Taxes as Business Continues at Top Levels

BY GEORGE L. MERTON

DESPITE the fact that Youngstown Sheet & Tube Co. is the sixth largest producer of steel and steel products in this country and may soon assume fifth position, the company depends upon highly competitive light steel products for a large part of its business. The latest estimates of combined annual production capacity of all primary metal plants of the company indicate the company's ability to produce about 2,802,000 gross tons of pig iron and approximately 3,120,000 gross tons of steel billets yearly. In reconciling these estimates to published figures they must be converted into short tons of 2,000 pounds. On a short ton basis, Youngstown's steel billet capacity is close to 3,500,000 tons which represents a sharp increase in capacity during the relatively brief 35 years during which the company has operated under its present name.



Within the past ten years the company has expended more than $100,000,000 in improving its plants and their productive capacity. This desire to make the most of the plants' possibilities continues, for the company has but recently announced that it is increasing the billet capacity of its Campbell Mill by 200,000 tons yearly through the replacement of four light roughing stands by six heavy roughing stands and the addition of one 28-inch stand and two 24-inch stand horizontal mills. The purpose of these changes is to take advantage of the recently enlarged production capacity of the company's open hearth furnaces and to prevent the formation of a "bottle-neck" should orders for steel continue to mount unabated.

Earlier in the history of the company tubular goods were the most important products. This line of goods was particularly profitable at the time when the petroleum and natural gas industries were at the height of their expansion. When the demand for pipes and similar products began to decline, the company embarked upon a program of diversification which has not only resulted in a much decreased dependence upon tubular products but also a considerable reduction in unit costs of other items made. Then too, by entering into other light production the company has been able to secure for itself an increasingly large share of automobile steel buying as well as that of other large users of flat rolled steel products.

The extent to which diversity has been obtained is indicated by a break-down of recent capacity figures. Tubular goods, which formerly represented better than one-half of finished capacity now amount to only 34 per cent of the total. Flat rolled products represent 31 per cent of the company's finished steel capacity while miscellaneous materials such as bars and structurals, tin plate, tie and sheared plates, wire and other items make up the balance. Although a past master at the art of making pipes of many sizes, the company has radically improved this division of the business as well, by intro-

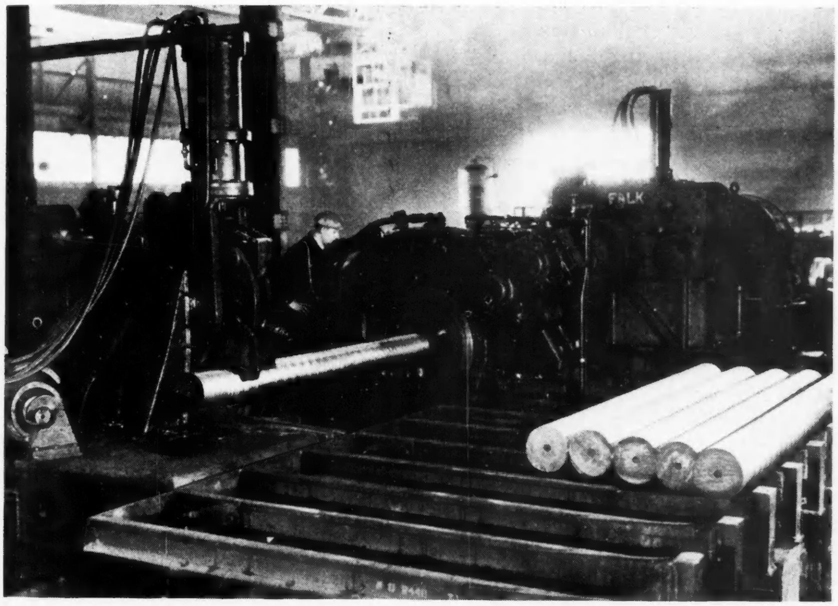
duction of new manufacturing methods utilizing electric welding and drawing of seamless pipes from pierced billets.

In common with most of the large steel producers, Youngstown Sheet & Tube Co. is fully integrated. Through the ownership of stock in various iron mining companies the company has control of nearly 45,000,000 tons of iron ore located in the prolific iron ore districts of Michigan and Minnesota. Last year Youngstown obtained approximately 2,990,000 tons of ore from these properties. At the 1939 rate of consumption, the company's reserves of iron ore are adequate for 15 years or more.

The second important raw material for the manufacture of steel is coal and again through subsidiaries and stock ownership, Youngstown Sheet & Tube controls close to 100,000,000 net tons of recoverable high volatile coking coal. Youngstown used approximately 1,627,000 tons of its own coal last year or about 56 per cent of its entire requirements for the year.

Vacant lands suitable for industrial purposes, employee housing facilities, zinc mines, timber lands as a source of lumber for future mining operations, lime stone quarries and small interests in three ore carrying steamship lines make up the largest part of the remainder of the company's outside interests. Ownership of a small amount of the stock of Youngstown Steel Door Co.—a former subsidiary—gives Youngstown Sheet & Tube a continued interest in the railroad equipment industry although not control of this active and promising enterprise.

Continental Supply Corp., another subsidiary of Youngstown Sheet & Tube Co., is one of the largest distributors of oil production supplies. Continental Supply not only sells the many products of Youngstown Sheet & Tube Co. which are in good demand by the petroleum production industry but also a wide line of other necessities and all on a profitable basis.



One of the two "peelers" which automatically skin pipe billets before they are reheated and rolled into pipe at the Youngstown plant of the Youngstown Sheet and Tube Co.

The manufacturing plants of Youngstown Sheet & Tube Co. are all located in the middle west. Two plants which provide approximately 66 per cent of the company's productive capacity are located in Youngstown, Ohio, while a third plant is located in South Chicago and another in East Chicago, Indiana, just over the Illinois state line on Lake Michigan. Raw material transportation costs are relatively low at the Chicago plants although they are somewhat higher than average at the Youngstown mills, due to the longer haul and other conditions. All of the plants are relatively modern in their equipment, especially the plant at Chicago which has been recently further improved by the addition of newer facilities. The location of all of the mills favors sales to the automotive industry and others located in the middle west.

As far as efficiency of operations is concerned, Youngstown Sheet & Tube is about on a par with its larger neighbors. In 1939, the ratio of operating income to net sales was 13.6 per cent as compared with 13.4 per cent for U. S. Steel, 13.3 per cent for Bethlehem Steel and 12.4 per cent for Republic Steel. The ratio of Youngstown's sales to net plant investment was also about average at 0.8 to 1 as compared with 0.9 to 1 for Bethlehem Steel and Republic Steel and 0.81 to 1 for U. S. Steel. When compared with the showing of Bethlehem Steel and Republic Steel who earned 4.8 per cent and 4.6 per cent respectively on invested capital Youngstown Sheet & Tube did not do quite as well but nevertheless, Youngstown's ability to earn 3.8 per cent on its invested capital of approximately $230,000,000 last year contrasted very favorably with United States Steel Corp. which earned only 3.1 per cent or, for instance, Jones & Laughlin, which earned only 2.6 per cent on a but slightly smaller amount of invested capital. Both the company's operating ratio and earnings on invested capital are certain to improve this year although the latter figure will still be below the maximum permitted under the new excess profits tax measure.

Earnings have been sharply higher this year than a year ago. In the third quarter of this year the company reported net earnings of $2,842,280 or the equivalent of $1.57 a share after the deduction of necessary taxes. The third quarter results were not as high as those of the fourth quarter of 1939 but they were sufficient to increase earnings for the full nine months to $2.77 a share as compared with $0.41 a year ago. In the fourth quarter of 1939 Youngstown Sheet & Tube earned $2.09 a common share under conditions similar to those which are now prevailing. On that basis, it is probable that the company will do equally as well this year inasmuch as increased capacity for pro- *(Please turn to page 290)*

Charles Phelps Cushing Photo

Office Equipments Face Moderately Better Outlook

BY STANLEY DEVLIN

Up to the present time the office equipment industry has been participating actively in preparedness efforts but the participation has been indirect. True, several of the companies engaged in the manufacture of typewriters, calculators and many other precision built machines have small orders for actual munitions but other industries which are actively engaged in the production of war supplies have called upon the business and office machinery manufacturers to furnish record keeping devices and similar machines needed to keep up with the sudden influx of business and to release all possible manpower for more important duties.

Workers in the office equipment industry are among the highest skilled mechanics in the land. The very nature of the machine which the workers produce calls for not only a high degree of skill but also an understanding of mechanical and production principles unnecessary for automobile mechanics or others not required to work to as close limits. Such skill is highly adaptable to the manufacture of such precision devices such as shell and bomb fuses, timing devices, meters, optical instruments and similar materials. The office equipment manufacturers have not been called upon to produce any military materials except small educational orders as yet, but after the defense program gets out of its basic stages the industry will probably receive as much of the actual business as it can handle.

The receipt of a large volume of munitions orders will probably cause but little disturbance in the normal routine of the manufacturers. The war abroad has decreased the world demand for American office equipment substantially and, furthermore, most of the factories are geared to operate at much higher rates than those required even by last year's reasonably good business. Skilled workers are in ample supply due to consistent efforts on the part of many managements to hold their skilled staffs together even when available work has been scarce. For instance, early this year, Underwood Elliott Fisher made arrangements with Pratt &Whitney to loan the aviation engine makers surplus skilled Underwood help temporarily made idle by the seasonal nature of the typewriter manufacturing business.

In order to manufacture small munitions parts it would not be necessary for the office equipment industry to make any drastic revision in its machinery set up. Most of the small parts are stampings or the products of automatic production machines of which the industry has an ample supply. Assembly of these same parts calls more for individual skill and speed rather than for machinery and since most of the office machinery consists of a great deal of accurate assembly it would be but a simple matter for present skilled assemblers to get into production on new products. Then, too, factory space is adequate in most instances to permit the expansion

of manufacturing activities on short notice. With much of the office equipment being made in strongly industrialized centers, any further need for space can most easily be supplied by buildings and facilities already in existence. On the whole, the office equipment industry is in an excellent position to take on large munitions orders whenever they may be offered.

Whether or not such business—if obtained—will be the source of much additional profit to the various companies is another question. Surplus profits taxes will place a definite ceiling upon net income although considerable added business would be needed before excess profits accrue, due to the dropping off of the various companies' foreign business. More can be said on the probable profits of munitions orders when such orders have been received in quantities and the results accruing from the first batch of such business is made public.

Domestic Business Rising

Of more importance to the office equipment industry at the present time is the position of the export market. Under normal circumstances, approximately 25 per cent of the industry's sales are made abroad. Of this 25 per cent, about 20 per cent has been going to England and approximately 40 per cent to the Continent. Practically all of this portion of the export business has been lost although there have been moderate increases in the takings of other export buyers, especially South America, Canada and Australia. So far this year exports have been falling sharply and for the full year probably will be about 30 per cent lower than in 1939 and at the lowest levels since 1933. Any sharp revival in the export trade of the industry will probably have to await the end of the war but in the interim it is possible that domestic business will increase sufficiently to make up in large part for the loss of foreign sales.

There are a number of factors which are assisting in raising the level of domestic business machines sales. First among them is the high degree of obsolescence which prevails in many quarters due to the inability or unwillingness of users to maintain their equipment or to provide replacements for machines that have become useless during depression years. The sharp revival of industrial activity in 1937 witnessed the beginning of a replacement and renewal movement among the users of business machines and office equipment but the recovery was too short lived to do much good. Now that there is a broader basis for industrial activity, the demand for new machinery is reviving strongly and promises to reach higher levels.

There are also minor reasons for an increase in demand for new office equipment and business machines such as the "draft" and the potential scarcity of low priced clerical assistance. The operation of the selective service program will undoubtedly remove a number of clerical workers from active business for a time and with somewhat higher living costs to come, wage scales of clerical workers must rise to prevent their absorption by higher paying jobs in manufacturing industries. The most efficient defense against shortages of help and higher clerical costs is to provide equipment that will automatically increase the productive capacity of the workers that remain on the job. This is most easily accomplished by the use of more office equipment; a fact that is recognized by most managements, for office equipment sales are now running as high as 30 per cent above those of a year ago.

The office equipment industry has most of its costs under strict control. The only cost that is susceptible to a sharp rise is that of labor although the demands are not likely to be unreasonable due to the previous efforts of many manufacturers to carry their skilled help over periods of inactivity. Providing employment for workers that were not needed has added to the cost of products made during years of relatively poor demand but now that demand is good this same group of employees is highly productive and profit margins are increasing as volume of business advances. Thus, with a loss of approximately 30 per cent of export business in sight, the companies still stand to make the best earnings showing since 1937 due to the co-operation of the workers and the increase in domestic demand.

That the domestic demand for business equipment is rising is most apparent in the case of National Cash Register. After lagging behind 1939 for the first two quarters of the current year this company reported much better than seasonal earnings for the third quarter with the re-

10 Leading Business Machines Manufacturers

Company	Earnings Per Share 1938	1939	1940E	1940 Dividend*	1940 Price Range	Current Price	COMMENT
Addressograph-Multigraph	$1.20	$1.35	$1.50	$1.20	19½-12½	15½	Unfilled order backlog high and sales trend upward.
Burroughs Adding Machine	0.54	0.44	0.60	0.50	12½- 7½	7¾	Foreign sales well maintained although earnings will be restricted by higher taxes.
General Fireproofing Co.	0.89	2.25	3.50	1.10	17¾- 9	17¼	Orders are at record high levels. Earnings are following.
International Bus. Machines	10.12	10.63	9.00	(s)6.00	191½-136	161½	Domestic business will hold at good levels although earnings will show only moderate improvement.
National Cash Register	1.47	1.10	1.25	1.00	16¼- 9¾	12¼	Both domestic and Latin American sales better.
Pitney-Bowes Pos. Meter (M)	0.65	0.70	0.75	0.50	8¾- 6	6½	Stable earnings from machine rentals assure continued attractive income.
Remington Rand (M)	0.59	0.94	1.25	0.80	10½- 6	9	Should receive additional government business and domestic gains will offset foreign sales declines.
Royal Typewriter (Jy)	5.17	7.91	9.00	5.00	65 -42	63	Better domestic business offsets considerable foreign sales declines and earnings should be well maintained.
Smith & Corona (Je)	0.96	0.90	1.00	0.50	11½- 5	9½	Earnings will be moderately higher and dividend seems secure.
Underwood Elliott Fisher	2.41	2.53	3.00	2.00	45 -21½	31½	Foreign sales bulk large but losses will be offset in great measure by better domestic business.

(M)—Fiscal year ends March 31 of following calendar year. (Je)—Fiscal year ends June 30 of following calendar year. (Jy)—Fiscal year ends July 31 of following calendar year. E—Estimated. (s)—Also stock. *—To date.

sult that nine months' earnings of $0.92 a share are moderately better than the $0.80 a share reported in the same period of 1939. Because of lower foreign demand it is not surprising that nine months' sale—which totalled $28,610,425—were about $600,000 lower than a year ago. The leverage factor of domestic sales increased profit margins sufficiently to permit a better proportion of net sales to come down to net income and thus made for better earnings.

The company's balance sheet for September 30, 1940, showed that the usually strong financial position had further been improved. Total current assets were up nearly $2,000,000 from a year ago to a total of $28,502,917 while total current liabilities rose only about $700,000 to a total of $4,974,225 in the same period.

National Cash Register has as yet only obtained approximately $1,000,000 in government orders for ammunition components although considerably more is expected to follow at a later date. The domestic sales volume rise is widely distributed with only the Pacific Coast showing a tendency to lag. The volume of South American business is said to be well maintained although there has been no significant changes in recent weeks. From what can now be determined, the company's earnings should approach $1.25 a share despite the higher tax schedules in force. The current dividend rate of $1 a share is in no immediate danger of reduction although the possibilities of a sharply higher rate in the near term are also remote.

Were it not for the fact that Underwood Elliott Fisher is already deducting estimated increases in federal taxes for the 9 months period, current earnings—the third quarter net of $0.42 a share being but $0.01 a share higher than in the same period of a year ago—would be more impressive. Net income from operations for the three months ended September 30 were $550,093 or about $68,000 higher than in 1939 and nearly $100,000 greater than in 1938 when export business was still unrestricted. Other income—$31,249— was better than in the two similar quarters of the previous years as was total income of $581,342. Depreciation charges for the quarter were moderately higher in keeping with better income and were it not for the fact that the company found it necessary to increase tax reserves by more than $137,000 for the period as compared with less than $80,000 a year ago, net profit would have been the best for the third quarter for many years. As it was, the $303,839 reported for the period was about $5,000 higher than a year ago.

Nine months' figures made a somewhat better showing. For the three quarterly periods, net income was $1,377,223 after the deduction of $428,158 in Federal taxes as compared with $225,220 a year ago. Net per share of common stock for the nine months' period was equal to $1.88 a share as compared with $1.58 a share a year ago. The fourth quarter is normally the best period of the year for sales and with the demand for Underwood products showing better than seasonal increases it is probable that full year earnings will be higher than the $2.53 a share reported for last year. On that basis it would seem as if the current $2 annual dividend rate is secure.

It is unlikely that Underwood Elliott Fisher will receive substantial orders for military equipment but the increased activities of others in making armament and munitions will step up the demand for typewriters, bookkeeping machines and other devices made by the company. Underwood Elliott Fisher has been particularly successful in South America and Canada. The South American markets were previously almost dominated by German manufacturers but since they are no longer able to supply their trade, a large portion of the available South American business has fallen to Underwood. While Underwood will undoubtedly be hampered by higher taxes, it is probable that the earnings for the duration of the war or preparedness efforts will be better than recent averages.

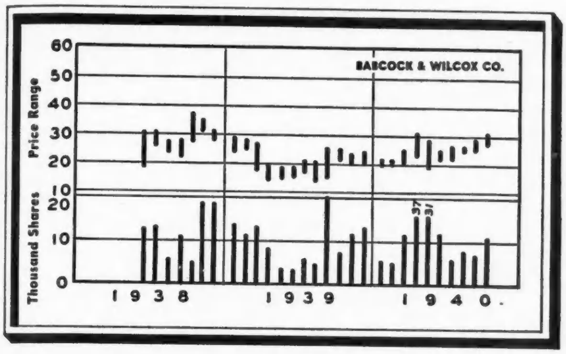
While Underwood Elliott Fisher will probably be only an indirect beneficiary of preparedness business, Remington Rand, Inc.—making a similar line of products but on a somewhat greater scale—will probably be in receipt of considerable government business. Remington Rand will not make munitions parts to any great extent but its line of tabulating devices and statistical record machines are ideally adapted to keeping of many types of records including military personnel, social security, materials and the countless other details which increase sharply in volume as the nation enters upon a phase of industrial activity such as is now in progress.

The company has been in receipt of considerable (*Please turn to page 292*)

One of International's latest type bookkeeping and accounting machines.

Six Low Price Stocks In Favored Industries

BABCOCK & WILCOX CO.



BUSINESS: Babcock & Wilcox Co. manufactures a line of steam boilers for marine and stationary service, stokers, economizers, superheaters, fuel pulverizers, water tubes, complete power plants as well as heavy machinery, large forms and metal parts. The company's steam boilers are regarded as one of the accepted standards of design by the trade. Approximately one-half of the company's normal sales are for marine purposes and the other half is mostly industrial and miscellaneous demand. With the ability to supply both naval and industrial needs, the company is in a peculiar position to benefit either from increased armament programs or from rising rates of industrial activity.

FINANCIAL POSITION: The company has no funded debt although at the close of 1939 there remained $500,000 of bank loans out of $2,000,000 reported at the close of 1937. As of the 1939 year end there were 671,970 shares of no par value common stock outstanding and 9,030 shares held in the treasury. According to the last year's balance sheet, current assets were $16,542,968 or better than three times greater than current liabilities. Cash items of $2,265,325 were substantially unchanged from those of a year previous although inventories carried at $6,697,657 were about $1,200,000 larger than at the close of the previous year. No dividends were paid last year but $1 a share dividend has been paid so far this year to date.

OUTLOOK: During 1939 the company expended $258,000 for plant equipment and other facilities and authorized additional improvements to cost $168,000 this year. Unfilled orders carried over into 1940 were $23,248,345, more than fifty per cent greater than at the beginning of 1939, and since that time new business has been accruing at a satisfactory rate. Meters for steam and liquid flow, as well as distilling apparatus used by the chemical, alcohol and petroleum industries, should also be stimulated by the increases in industrial activity stemming from defense measures.

MARKET ACTION:	Babcock Wilcox	Market Average	Babcock's moves in relation to avge
'37 high to '38 low.......	44% decline	64% decline	31% narrower
'38 low to '38 high.......	95% advance	76% advance	25% wider
'38 high to '39 low.......	64% decline	34% decline	47% wider
'39 low to '39 high.......	119% advance	44% advance	170% wider

Average volatility on four moves 68% greater than the M. W. S. index of 309 common stocks.

COMMENT: Recent price—28. While excess profits taxes will be a problem, earnings should be sufficiently high to offset the increase in tax payments and at the same time leave a substantial share for the stockholders.

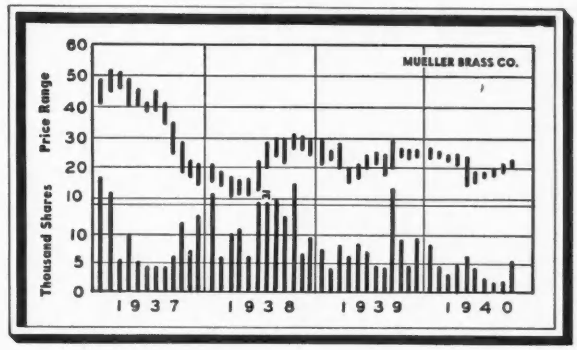
Long-Term Record

Year	Operating Income (millions)	Net Income (millions)	Net Per Share	Dividends	Price Range
1932............	NF	NF	NF	1.00	15 - 6⅝
1933............	d1,357	d1,547	d3.37	0.42	19⅝- 8⅜
1934............	d 505	d1,293	d1.93	0.28	17 - 6⅛
1935............	459	523	0.78	0.13	25⅝- 9⅜
1936............	1,214	1,212	1.80	0.95	46⅞-23⅜
1937............	1,851	1,805	2.69	1.66	52 -20
1938............	d3,046	d3,089	d4.60	0.08	37 -19
1939............	1,468	1,169	1.74	....	29½-13½
1940 (9 mos.)....	3,528	1,832	2.73	1.00x	30½-18¾x
1939 (9 mos.)....	d 104	d 500	d0.74	....	....

x—To date. d—Deficit. NF—Not available.

Thumbnail Stock Appraisal

MUELLER BRASS CO.



BUSINESS: Mueller Brass Co. is a metal fabricator making the usual line of forgings, castings, rods, seamless tubes, valves of numerous kinds, fittings and other fabricated objects. In addition to copper, many of the products are also made in brass, bronze and other non-ferrous metals. Of greater importance from the standpoint of potential business is the company's "Streamline" copper pipe and solder fittings. These materials permit the assembly of water service pipes without the necessity of cutting threads; all joints and fixtures being completed through use of the company's patented devices which permit the joints to be made by "sweating" with solder. The automotive industry is the company's largest customer although the enterprise is particualrly fitted to fabricate Army materials including fuses and armament shapes.

FINANCIAL POSITION: The company is in a strong financial position. As of August 31, last, the ninth month of the company's fiscal year which ends on November 30, total current assets aggregated $3,097,000 as compared with current liabilities of $468,805. The current asset ratio was approximately 6.6 to 1. The company retired approximately $400,000 in bank loans during its third fiscal quarter and was thus clear of bank debt at the end of the nine months period. At the same date, cash items totaled $634,000 which makes it unlikely that the company will have recourse to its bank credit to finance additional operations. The sole capital obligation is 265,516 shares of $1 par value common stock.

OUTLOOK: The company's "Streamline" fittings are particularly adapted to the needs of the building industry, airplane builders and shipbuilders where savings of time are of paramount importance in achieving mass production. In addition to potential new volume users, the automobile industry will find use for considerably increased quantities of the special products in the manufacture of vehicles designed for other than private use. This year's earnings will probably be close to the peak for all time for nine months' net income.

MARKET ACTION:	Mueller Brass	Market Average	Mueller Brass's moves in relation to averages
'37 high to '38 low.......	80% decline	64% decline	25% wider
'38 low to '38 high.......	191% advance	76% advance	151% wider
'38 high to '39 low.......	49% decline	34% decline	44% wider
'39 low to '39 high.......	85% advance	44% advance	93% wider

Average volatility on four moves 35% greater on declines but 123% greater on advances than the M. W. S. index of 309 common stocks.

COMMENT: Recent price—22. Excess profits taxes are not a problem as far as the 1940 fiscal year is concerned although they will apply in full force from then on. Despite the later imposition of higher taxes subsequent earnings promise to be substantial.

Long-Term Record

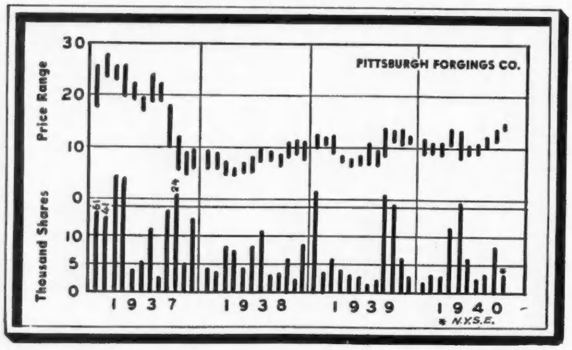
Year	Net Sales (millions)	Net Income (millions)	Net Per Share	Dividends	Price Range
1932............	1,609	d310	d2.78	....	NF
1933............	2,164	029	0.06	....	NF
1934............	3,338	1,300	0.69	....	NF
1935............	4,731	405	1.87	0.20	29⅝-26⅞
1936............	6,533	821	3.09	0.95	46 -23½
1937............	8,654	802	3.02	1.40	54 -15¼
1938............	5,252	266	1.00	0.35	32 -11
1939............	7,997	690	2.60	0.80	30 -16¼
1940 (9 mos.)....	NF	553	2.08	1.00x	20⅞-15x
1939 (9 mos.)....	NF	439	1.65	....	....

NF—Not available. d—Deficit. †—Year ended Nov. 30. x—To date.

Thumbnail Stock Appraisal

Six Low Price Stocks In Favored Industries

PITTSBURGH FORGINGS CO.



BUSINESS: The company specializes in making drop and upset forgings which under normal circumstances are in good demand by the automotive and railroad industries. Pittsburgh Forgings has a further interest in the railroad industry through ownership of all of the common stock of the Greenville Steel Car Co. which has a freight car manufacturing capacity of upward of 4,000 units and also rebuilds and repairs steel freight cars and under-frames. Another product is a line of automobile hubs although it is of lesser importance than the forging activities as a producer of revenue. The company is in an excellent position to obtain considerable armament business and since drop-forging capacity is at a premium in this country it is likely that the company's facilities will be expanded in the near term and probably at Government expense or with its assistance.

FINANCIAL POSITION: The funded debt consists of $533,190 in notes payable to banks in serial payments to 1944. The notes are secured by mortgages and other collateral. Following the notes are 220,000 shares of $1 par value common stock. For a company of its size the financial position is strong. As of June 30, 1940, current assets amounted to $1,563,884 as compared with current liabilities of $417,389 or an asset ratio of nearly 4 to 1. Working capital of $1,146,500 is adequate for current purposes but despite the fact that it is higher than at any time in the past several years it will nevertheless have to be expanded during the longer term. The company is now on an annual dividend basis of $1 a share.

OUTLOOK: While the capacity of the railroad equipment manufacturing subsidiary is small in comparison with some of the more prominent manufacturers, it promises to operate at full capacity for some time to come. The forgings business will continue at high levels as long as the armament program persists. Earnings will be subject to considerable additional tax imposts in view of the modest levels of the past several years although the remainder after taxes should prove to be adequate.

MARKET ACTION:

	Pittsburgh Forging	Market Average	Pittsburgh's Forging's moves in relation to avge.
'37 high to '38 low........	82% decline	64% decline	28% wider
'38 low to '38 high........	133% advance	76% advance	75% wider
'38 high to '39 low........	32% decline	34% decline	6% narrower
'39 low to '39 high........	74% advance	44% advance	41% wider

Average volatility on four moves 38% greater than the M. W. S. index of 309 common stocks.

COMMENT: Recent price—16. Results for the first half of 1940 were better than any similar period in the company's history and almost equalled the company's best year's showing of $2.01 a share reported in 1937.

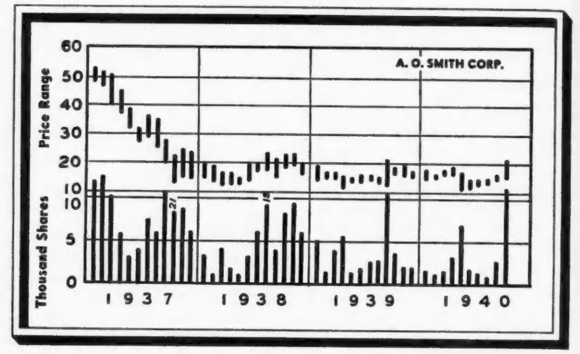
Long-Term Record

Year	Net Sales (millions)	Net Income (millions)	Net Per Share	Dividends	Price Range
1932............	NF	d160	d0.74	....	3½- 1⅛
1933............	NF	d 74	d0.34	....	5½- 1¼
1934............	NF	31	0.14	....	5½- 2
1935............	NF	58	0.27	....	7¾- 2½
1936............	270	65	0.30	....	19½- 7⅝
1937............	912	442	2.01	....	27 - 5½
1938............	247	d 91	d0.41	....	11⅜- 4⅞
1939............	536	294	1.33	0.40	13½- 7¾
1940 (9 mos.)....	447	428	1.95	0.75x	16⅝- 8x
1939 (9 mos.)....	NF	NF	NF	....	....

NF—Not available. d—Deficit. x—To date.

Thumbnail Stock Appraisal

A. O. SMITH CORP.



BUSINESS: The company is best known as a producer of automobile frames for which it has a capacity of 15,000 units daily. Of this amount, 66 per cent is manufactured through methods that are almost 100 per cent automatic while the remainder involves considerable hand work. The company's patented welding process, known as the "Smithweld" method, employs an electric arc. With this process the company is able to manufacture a line of welded steel pipes from sheet steel ranging in size from 8⅝ inches up to 26 inches in diameter and from 30 feet to 40 feet in length. Any thickness of metal consistent with the diameter of the pipe may be used. The system is also used to fabricate tanks, stills and other high pressure vessels for the chemical, petroleum and other industries. Stair treads, railroad grade crossing plates and similar devices are also made. In addition to the steel business the company controls three gold mining properties, none of which, however, are operating at a profit.

FINANCIAL POSITION: The company has no funded debt although there were $700,000 in bank loans outstanding at the close of the company's fiscal year on July 31, 1940. Following the bank loans there were 497,900 shares of capital stock of $10 par value. Current asset ratio of nearly 2½ to 1 was satisfactory at the close of the fiscal period. Current assets of $9,234,140—which excluded marketable securities shown in the previous balance sheet at better than $500,000—compared favorably with total current liabilities of $3,534,533. Cash items of $554,368 were comparatively modest although they were better than in previous years by a fairly substantial margin. No dividends have been paid since 1931 although some distribution is likely this year in view of sharply higher earnings.

OUTLOOK: The company's products are all in good demand and promise to continue to be so. With increasing demand for pipe line facilities both for the petroleum and the natural gas industries it is probable that the company will continue to receive an increasingly large demand for its welded pipes.

MARKET ACTION:

	A. O. Smith Corp.	Market Average	Pittsburgh Forging's moves in rel. to avge.
'37 high to '38 low........	76% decline	64% decline	16% wider
'38 low to '38 high........	85% advance	76% advance	11% wider
'38 high to '39 low........	53% decline	34% decline	56% wider
'39 low to '39 high........	86% advance	44% advance	95% wider

Average volatility on four moves 45% greater than the M. W. S. index of 309 common stocks.

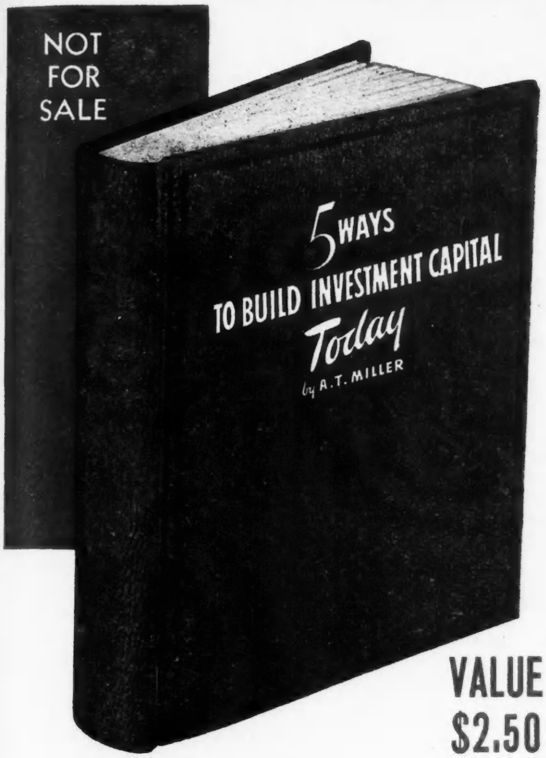
COMMENT: Recent price—19. Last year's net sales were the second best of the recovery period although this year's results will probably be better.

Long-Term Record

Year a	Net Sales (millions)	Net Income (millions)	Net Per Share	Dividends	Price Range
1931............	NF	3,234	6.28	1.50	192 -33
1932............	NF	d4,877	d9.94	....	59 -11
1933............	NF	d1,931	d3.96	....	52¾-11¼
1934............	NF	d250	d0.59	....	43 -15⅛
1935............	18,725	d621	d1.33	....	72 -29
1936............	26,795	863	1.75	....	72 -40¼b
1937............	31,958	017	0.03	....	54½-13
1938............	20,200	d982	d1.97	....	24 -13
1939............	20,297	108	0.21	....	21 -11⅜
1940............	29,835	1,687	3.38	....	22 -10½x

a—Year ended July 31. b—From 1936 on range on New York Stock Exchange. d—Deficit. †—Year ended July 31. x—To date.

Thumbnail Stock Appraisal



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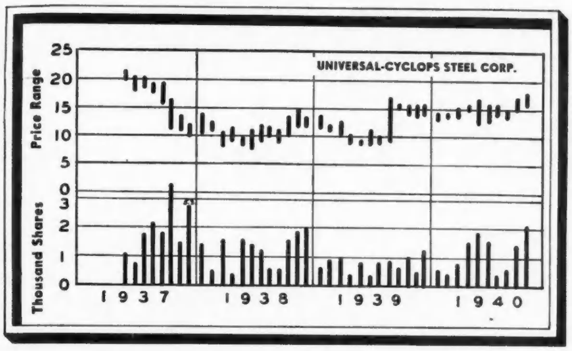
Six Low Price Stocks In Favored Industries

UNIVERSAL-CYCLOPS STEEL CORP.



BUSINESS: Universal-Cyclops Steel Corp. manufactures a wide line of specialty steels which includes tool steel, stainless steels and various alloys. These products are made in the form of sheets, strips, bars, rods, bands, wire and plates and are used in the manufacture of saws, small tools, office equipment, agricultural machinery, implements, automobile machinery, etc. The automotive, machine tool and agricultural equipment manufacturers normally take the greatest part of the company's output although the aviation industry is becoming an increasingly large consumer. Most of the steels are made to the individual specifications of the customers and thus the fact that the company's production capacity is less than 55,000 tons per annum is not particularly significant. Most of the customers are of long standing.

FINANCIAL POSITION: No funded debt nor bank loans precede the 500,000 shares of $1 par value common stock which were outstanding at the end of September. The latest balance sheet available, dated December 31, 1939, showed a favorable financial position with total current assets of $3,146,618 being nearly 4 times greater than total current liabilities of $834,976. Of the total current assets, $634,283 was in cash and life insurance policies had a cash surrender value of $161,026. Inventories of $1,596,391 were moderately higher than a year before but were not too heavy in view of sales for the year of more than $7,000,000. Common dividends were initiated in 1936 and have been maintained since that time in varying amounts. The three quarterly dividends of $0.20 a share each paid so far to date should be supplemented with an additional—and perhaps larger disbursement at the close of the year.

OUTLOOK: While last year's net sales were double those of the previous year they failed to exceed the previous record. This year it is probable that sales will reach a new high although final earnings will be somewhat restricted by the application of new tax schedules for which no provision was made in the first half year. Despite the deduction of the additional taxes in the third quarter, the results were satisfactory and the outlook for the final three months is good.

MARKET ACTION:

	Universal Cyclops	Market Average	Universal Cyclops moves in relation to averages
'37 high to '38 low.......	64% decline	64% decline	....
'38 low to '38 high.......	100% advance	76% advance	32% wider
'38 high to '39 low.......	40% decline	34% decline	18% wider
'39 low to '39 high.......	89% advance	44% advance	80% wider

Average volatility on four moves 33% greater than the M. W. S. index of 309 common stocks.

COMMENT: Recent price—18. While not directly concerned in the manufacture of munitions, the products are in strong demand by all munitions makers.

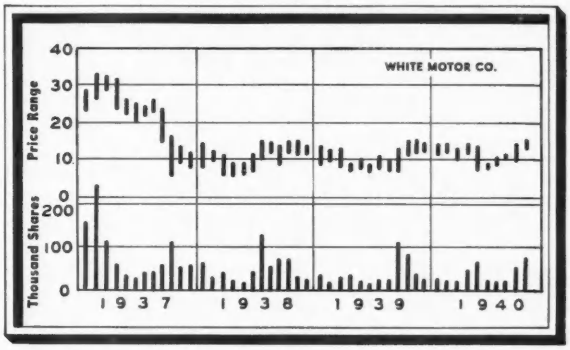
Long-Term Record

	Net Sales (millions)	Net Income (millions)	Net Per Share	Dividends	Price Range
1932...........	NF	NF	NF	....	NF
1933...........	2,187	177	NF	....	NF
1934...........	3,077	261	NF	....	NF
1935...........	4,380	555	NF	....	NF
1936...........	5,720g	828	1.66	0.25	NF
1937...........	7,351	911	1.82	1.00	21 - 9¾
1938...........	3,664	099	0.20	0.37½	15 - 7½
1939...........	7,231	864	1.73	1.00	17 - 9
1940 (9 mos.)....	NF	750	1.50	1.10x	18½-12½x
1939 (9 mos.)....	NF	447	0.89	....	....

g—Approximate. NF—Not available. x—To date.

Thumbnail Stock Appraisal

WHITE MOTOR CO.



BUSINESS: White Motor Co.'s most important product is its line of trucks ranging in carrying capacity from 1 ton to 10 tons. The trucks are best known under the trade names of "White" and "Indiana," which includes streamlined, cab-over-motor as well as the more conventional models. The company also manufactures motor buses and coaches for inter-urban and local service with a passenger capacity from 15 to 40 persons. A new, light weight bus, available in two models, and selling in the lower price brackets is finding increased acceptance by transit companies for use in small load runs and for off-hour traffic. Distribution is obtained through wide-spread factory branches, which account for a majority of sales and a large dealer organization.

FINANCIAL POSITION: The company has neither funded debt nor bank loans ahead of its 625,000 shares of $1 par value common stock. The financial position of the company is becoming increasingly strong. As of June 30, 1940, total current assets amounted to $17,357,840 as compared with total current liabilities of $3,952,695. The cash position showed the greatest improvement; substantially better than $1,000.000 higher than at the close of the year and nearly $1,600,000 greater than the $773,968 reported at the mid-year period of 1939. Bank loans, which totaled $1,000,000 at June 30, 1939, were cleaned up during last year. Inventories of $9,848,622 were not materially higher than a year ago despite the fact that the company's unfilled order backlog has been running at record high levels. No dividends have been paid since 1934 but the present condition of the company would warrant some disbursement either this month or early next year.

OUTLOOK: Not only will the company's commercial business continue at high levels but military business will become even more important than it has been in recent months. The new "White-Horse" door-to-door delivery truck is meeting excellent demand and has been the means of considerably expanding dealer outlets.

MARKET ACTION:

	White Motor	Market Average	White Motor's moves in relation to averages
'37 high to '38 low.......	82% decline	64% decline	28% wider
'38 low to '38 high.......	149% advance	76% advance	96% wider
'38 high to '39 low.......	54% decline	34% decline	59% wider
'39 low to '39 high.......	125% advance	44% advance	184% wider

Average volatility on four moves 44% greater on declines but 140% greater on advances than the M. W. S. index of 309 common stocks.

COMMENT: Recent price—15. The company has more than $45,000,000 in Government orders on its books in addition to other business which assures peak operations for some time to come.

Long-Term Record

Year	Net Sales (millions)	Net Income (millions)	Net Per Share	Dividends	Price Range
1932...........	17,117	d3,619	d5.79	5.00	27¼- 6⅞
1933...........	13,615	d3,413	d5.46	....	26½-14
1934...........	20,540	d1,401	d2.24	0.31‡	28½-15
1935...........	19,908	d2,912	d4.66	....	19½- 6⅞
1936...........	28,770	682	1.09	....	28⅜-18⅜
1937...........	30,685	066	0.11	....	33⅜- 6
1938...........	19,393	d1,825	d2.92	....	15¼- 6⅛
1939...........	23,512	107	0.17	....	15¾- 7
1940 (1st half)...	NF	744	1.19	....	x16⅛- 7½
1939 (1st half)...	NF	d469	d0.75	....	....

‡—Paid on stock held by others than Studebaker Corp. by court order. d—Deficit. x—To date.

Thumbnail Stock Appraisal

Mack Truck Earnings On the Way Back

Benefits from the Armament Program Are Chiefly Indirect Thus Far

BY ROGER CARLSON

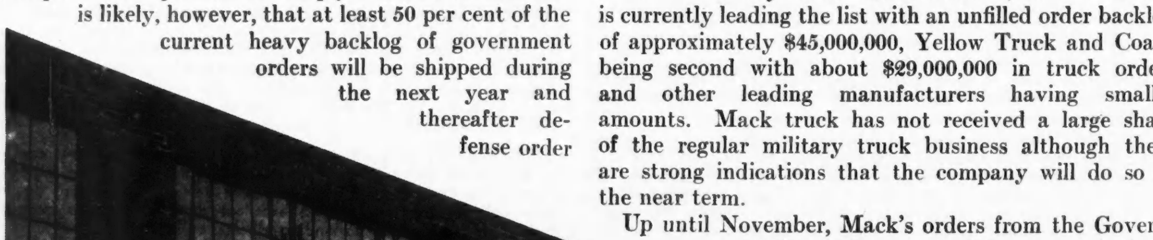
MECHANIZATION of modern warfare has resulted in the automobile and other vehicles propelled by internal combustion engines taking a prominent part in our defense plans. Not only are these vehicles—used for combat and transportation purposes—in strong demand but their makers are being called upon to turn out a wide line of related and also unrelated parts which include marine engines, airplane parts and engines, fire apparatus, machine guns, shells and fuses and also cannon. So far, such orders to automobile manufacturers have passed the $800 million mark and more defense business is on the way.

Defense orders are not playing an important part in this year's automobile deliveries because of the late date at which they have been placed and the fact that production capacity must be expanded in some instances in order to cope with the problem of sharply increased demand. It is likely, however, that at least 50 per cent of the current heavy backlog of government orders will be shipped during the next year and thereafter defense order shipments will reach and hold a level of approximately $1,000 million yearly. This additional business can best be realized by comparison with factory value of 1939 shipments of the automobile industry both here and in Canada, which amounted to approximately $2,420,000,000 and reached a post-depression high of $2,970,000,000 in 1937.

That some companies should obtain a larger part of available orders for defense materials is understandable for each manufacturer has a different production capacity and is capable of performing some services in a manner impractical for others. The largest of the automobile manufacturers—General Motors—has therefore been in a position to take on the largest share, with other companies participating in proportion to their ability to make deliveries.

Of the strictly truck manufacturers, White Motors is currently leading the list with an unfilled order backlog of approximately $45,000,000, Yellow Truck and Coach being second with about $29,000,000 in truck orders and other leading manufacturers having smaller amounts. Mack truck has not received a large share of the regular military truck business although there are strong indications that the company will do so in the near term.

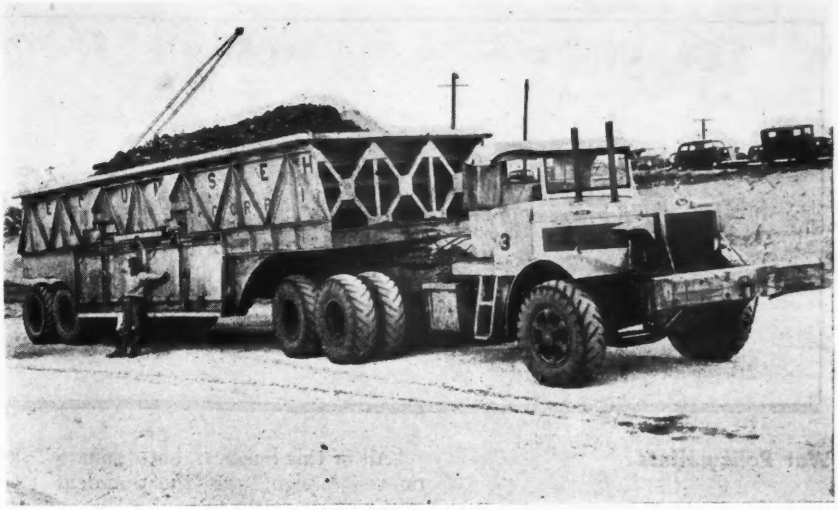
Up until November, Mack's orders from the Government for defense materials were relatively limited. However, in that month the company announced that it had received an order for tank



Eight new high-pressure wagons recently delivered to the N. Y. City Fire Department.

transmissions to the amount of $10,000,000 for delivery during 1941. The largest previous order was for 20 fire engines placed earlier in the year. New truck designs, including tractors, six-wheel and dump models not only expand Mack's line of products but also place the company in an improved position to compete with other manufacturers who have been engaged in the making of specialties while Mack was content to continue its conventional line.

The greatest part of Mack's reputation has been made through the manufacture of a line of heavy-duty trucks and similar equipment. As a strictly capital goods product the demand for heavy trucks has kept pace with the trend of the business cycle. In order to diversify the line of products and at the same time to lessen the sharp variations in manufacturing operations, Mack Trucks introduced a line of light trucks in the lower price field. Competition in the light truck industry is heavy, for some of the best known automobile manufacturers have concentrated their commercial efforts on such vehicles, but due to the good name and high consumer regard for Mack trucks, the new line has found ready acceptance and has thus improved Mack's competitive position in the field. This has been achieved, moreover, without sacrificing any of the company's precedence in the heavy duty field.



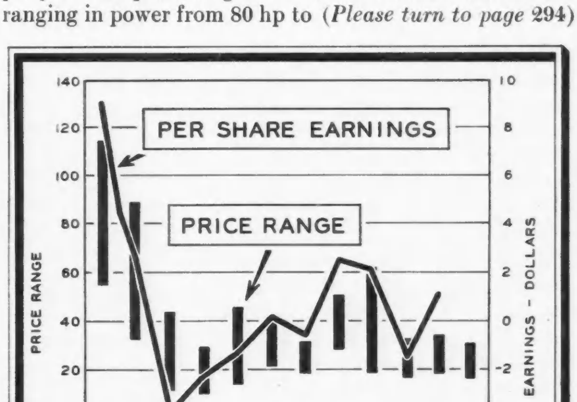
Mack makes the world's largest trucks which are used in strip mining. They have a capacity of 50 tons.

Further to improve its competitive position, Mack Trucks has just announced a completely revised line of trucks, tractors and six-wheel models designed mainly for heavy commercial work but easily adaptable to modern military needs. These new models are as fully streamlined as their heavy duties will permit, are of all-metal construction and combine a high degree of engineering development and efficiency with the most driver and passenger comfort ever before offered in vehicles of comparative size. This new series is known as series "L" and regularly comes powered with Mack's own Thermodyne engine or, if desired, Mack's Diesel engines. The series is as yet too new to attract wide Government interest—represented by heavy purchase orders—but several of the models, particularly the tractor, the six-wheeler and the dump trucks, should be highly desirable equipment both for actual military use and for the preparation of camp-sites and similar works. For the purposes of heavy construction and open-pit mining, Mack Trucks manufactures a complete line of fully engineered and specifically designed trucks, including vehicles with the largest carrying capacity of their type in the world.

The growing importance of the Diesel engine has not found Mack Trucks lacking in this field. The company now offers the largest line of Diesel powered trucks and buses of any American manufacturer. Mack Diesels are manufactured by the company and incorporate many excellent features such as lower compression, lower temperatures of operation, absence of detonation and smoother power flow. Mack Diesels have overcome in great measure the nuisance of heavy smoke and odors while at the same time offering more flexibility and higher speeds. While Mack's Diesel powered trucks and buses are relatively new products for the company, they are the results of many years research and are in no sense to be considered an untried product.

In the automotive line semi-trailer trucks, motor and Diesel powered passenger buses and fire-fighting apparatus complete the company's offerings. Mack Trucks is one of the nation's largest bus manufacturers with a line of passenger buses having a seating capacity from 25 passengers to 48 passengers and available in Diesel, gasoline or trolley-bus units. School buses are available in 18 different models which include cab-over-engine and other innovations. The manufacture of fire-fighting apparatus is an accomplishment of long standing for Mack Trucks. The line includes pumpers with a capacity of 100 gallons to 1,500 gallons a minute, hook-and-ladders, patrol cars, hose cars, salvage cars and special squad cars for many purposes.

As an outgrowth of its Diesel experiments the company is now producing a line of four new marine Diesels ranging in power from 80 hp to (*Please turn to page* 294)



For Profit and Income

War Policy Hints

The State Department issued licenses for export of $192,882,000 worth of arms, ammunition and implements of war during October, of which $170,072,000 were for Great Britain and $8,555,000 for Canada. Actual shipments for the month, however, came to only $27,896,000.

No one believes that England is thinking of throwing up the sponge after the gallant stand she has already made, and the continued high level of war purchases is confirmation of her determined attitude. There is one more way of reading British intentions — through the types of equipment ordered. It is understood that some of the orders involve material that can be intended only for a land offensive at some time in the future. The British leaders have promised this as something to come eventually, but here is an indication that they actually mean business.

Profits on Arms

When American Car & Foundry began to get large war orders there was some doubt over the interpretation of company statements, particularly over the question of profits on work undertaken for the U. S. Government. It now appears that the first six months of the Car & Foundry fiscal year, those ending October 31st, have succeeded in registering a net income of $823,654, against a net loss of $1,746,678 in the same six months a year earlier. And the company had unfilled orders of $115,611,801 on hand at the end of October, of which $93,283,657 represented war work.

"All of this business, both domestic and foreign," said the president of the company, "has been taken on what your management considers a safe basis and at figures calculated to earn a fair and reasonable profit. While the tax burden has been calculated, and allowed for, at the rate provided by the law now effective, it is of course impossible to predict what that burden will be at the close of our fiscal year, April 1, 1941."

Utilities Under Pressure

Weakness in the utility group has been spotlighted in recent sessions by selling in Commonwealth & Southern. This is apparently coming from three sources. Those who bought the stock before election as a bet or a hedge against the bet have no further interest in their holdings. Presumably some tax selling to establish losses is also going on. And a good many are convinced that utilities in general are up against a tough problem in the shape of higher costs.

Rising costs for utilities were argued exhaustively a year and more ago, but then it was the prospect of an unfavorable trend in prices of labor, fuel and materials that received most attention. Now it is clear that the tax question is the most difficult of all. Revenues are increasing and in most cases net after taxes is declining. How far this process is likely to go forms the cause of worry right now.

The case of Commonwealth & Southern, incidentally, illustrates a

Westinghouse Photo

Pressing axle shafts into rotor parts in the new Industrial Motor Division of Westinghouse Electric and Manufacturing Company at East Pittsburgh, Pa.

point made in these pages some time ago. The preferred is strong while the common is at its all-time low. In these days it pays to be as close as possible to the actual earnings.

Nickel on Bottom?

When war broke out it took an immediate toll of **International Nickel**, mainly because this Canadian company incurs heavy taxes to pay its share in the common burden. Now that the United States is spending at a rate comparable with a nation at war, there is considerably less to choose between present and prospective tax rates in this country and Canada. Nickel benefits directly from our defense boom, since most of its nickel sales are made here.

In other words, the Canadian enterprise is no longer at such a *relative* disadvantage as compared with American companies. Nevertheless, although the stock holds well, there is nothing in its market action yet to confirm this point of view. Formation of any impressive base will take more time than has elapsed since its markdown.

Odd Lots

Southern Pacific loadings have taken a turn for the better and the issue is attracting more attention. A recent article on "hot shot" freight featured Sopac and its enterprising part in speeding up shipments.

Among the less active issues on the Curb, **Pennsylvania Salt** is making a good showing. The company is actually a heavy chemical producer, and incidentally a dividend producer of no mean record.

Marshall Field earnings for the year are now estimated at better than $2.00 a share, against 24c in 1939. This comeback has just about fulfilled all promises.

New Haven R. R. common stock selling at 6¼c a share is a sad reminder of former glories. Even in 1931 the dividend on this stock was $5.50. The depression low price for the stock was 2⅝.

An unproductive decade for **Inspiration Consolidated Copper** stockholders was ended when the company announced a dividend of 50c a share. The last previous payment was in July, 1930.

Unfilled orders of **Westinghouse Electric** have reached a new record high at $180,000,000. Equipment for naval vessels makes up $100,000,000 of the total, civilian work only $55,000,000. Current rate of shipments — close to $22,000,000 monthly—indicates the backlog can be handled in about eight months.

Holdings of Investment Trusts in Laggard Stocks

(Symptoms of liquidation of certain high grade issues in recent weeks have suggested that investment trusts may be sellers. Possibilities of year-end "window-dressing" call attention to these holdings which may be under temporary pressure because of portfolio changes. Tax selling by individuals in the same type of stocks is also a consideration.)

Issue	Lehman Corp. Shares Held 9/30/40	6/30/40	Gen. Amer. Investors Shares Held 9/30/40	6/30/40	Tri-Cont'l Corp. Shares Held 9/30/40	6/30/40
Corn Products	7,900	7,900	......	......	......	......
General Foods	16,300	16,300	......	......	......	......
Monsanto	6,000	6,000	500	500	......	......
Hercules	1,200	1,200	......	......	3,000	2,950
Dow Chemical	2,300	2,000	......	......	1,700	1,700
American Can	9,500	9,500	......	......	......	......
Consolidated Edison	8,100	8,100	......	......	......	......
International Nickel	11,000	11,000	......	......	21,000	20,600
Montgomery Ward	19,800	19,800	15,000	15,000	1,700	5,000
Coca-Cola	......	......	......	......	600	800
Procter & Gamble	2,300	2,300	......	......	......	......
North American Co.	20,000	20,000	25,000	25,000	30,500	30,500
Owens-Ill. Glass	6,900	6,900	8,200	8,200	......	......
Socony Vacuum	25,000	25,000	......	......	12,900	12,900
Standard Oil (N. J.)	20,000	36,955	10,000	10,000	7,600	7,600
Commercial Credit	......	......	......	......	2,300	2,300
Colgate Palmolive	5,000	5,000	......	......	......	......
National Dairy	10,000	10,000	......	......	......	......
Standard Oil (Cal.)	......	......	......	......	2,900	2,900
American Gas & Elec	10,000	10,000	16,000	16,000	24,000	24,000
Engineers Public Service	15,000	15,000	35,000	35,000	10,500	10,500
Greyhound	10,000	10,000	26,000	26,000	3,900	3,000
Commonwealth Edison	30,000	30,000	16,000	16,000	......	......
Canada Dry	4,000	4,000	......	......	......	......

Capitalization Shifts

Companies figuring their liability to excess profits taxes under the average earnings option are giving some thought to the idea of substituting bonds for preferred stocks. Present money conditions make it possible to secure very low coupon rates, and these interest payments are, of course, a charge before taxes. Preferred dividends do not come out of income until after the tax liability has been calculated.

From the viewpoint of the common stockholder, it may seem a good thing to eliminate preferred stock and increase funded debt. Immediate savings are visible, at any rate. The catch will be postponed to the day when earnings drop and bond interest must be met or risk receivership. The ideal solution, where it can be arranged, is to sell income bonds with which to retire the preferred stock.

Whether these considerations bring many definite results in 1941 or not, traders will be on the watch for cases in which a second grade preferred will be attractive because of its nuisance value.

Guns or Butter

England has decided that only the excuse of nationally important work will permit an individual to buy a new motor car. All production possible is to be exported, as a vital part of the war effort, securing exchange with which more necessary supplies may be purchased abroad. The public must get along with what it had before the war in the way of used cars, then estimated at 2,000,000. However, the trend of sales of new cars has been downward for many months, as shown by these figures given by the Economist of London:

New Registrations of Cars Taxed on Horse-Power
(Chiefly private cars)

	1939	1940
January	27,236	5,657
February	23,509	3,849
March	39,267	6,611
April	25,645	4,688
May	28,268	3,603
June	26,502	1,891
July	23,967	3,874

Answers to Inquiries

The Personal Service Department of THE MAGAZINE OF WALL STREET will answer by mail or telegram, a reasonable number of inquiries on any listed securities in which you may be interested or on the standing and reliability of your broker. This service in conjunction with your subscription should represent thousands of dollars in value to you. It is subject only to the following conditions:

1. Give all necessary facts, but be brief.

2. Confine your requests to *three listed securities.*

3. No inquiry will be answered which does not enclose *stamped, self-addressed envelope.*

4. If not now a paid subscriber use coupon elsewhere in this issue and send check at same time you transmit your inquiry.

Special rates upon request for those requiring additional service.

Crown Cork & Seal Co.

I am interested in the appreciation possibilities of Crown Cork & Seal bought at 36⅛ Is the company's new can manufacturing division now operating on a profitable basis? What are the profit prospects of its new aluminum coated seamless can? Are volume and net for all divisions still holding above 1939, as reported for the first six months of this year? Should sales of crown closures for beverage bottles show a considerable falling off during the winter months? To what extent has the war endangered the company's cork supplies imported from Spain, Portugal and Northern Africa? Would you advise averaging at market. I have 100 shares bought at the price given above.—N. T., Miami, Fla.

As the nation's leading manufacturer of crown closures for all types of bottles, together with bottling machinery sold to the dairy, liquor and related industries, Crown Cork & Seal Co. has extended its operations into the production of metal and glass containers. Capacity for the making of aluminum coated seamless cans had been increased and this division, heretofore unprofitable, may contribute moderately to current year earnings. Can sales are said to account for one-third of total volume and appear likely to become of increasing importance over the next year or so. Unless the war spreads no serious interference to cork supplies from Spain, Portugal and Northern Africa is anticipated. At last account the working capital position was satisfactory. Capitalization consists of 515,609 common shares, 225,000 shares of $2.25 preferred stock and funded debt of $19,000,000.

Despite the drag of the unprofitble can division, operations have been profitable in all recent years with the exception of 1932. Profits last year were equal to $2.80 a share, up considerably from the $1.37 a share realized in 1938. The improvement has continued into the current year with net in the first 9 months being equal to $3.24 a share which was in rather sharp contrast to the $2.41 a share recorded in the corresponding interval of 1939. Operations have remained above year earlier levels and full year results, moderately reduced by the excess-profits tax, may be around $4.00 a share. Although some seasonal letdown in sales is possible, demand for all products promises to continue at fairly high rates and with profit margins thought to have been relatively well maintained further earnings gains appear to be in prospect. Dividends have been resumed with the payment of 50 cents a share to be made on December 27, next. Because of the rather favorable earnings outlook at this time we would counsel continued retention of the shares, but would not advise additional purchases.

Continental Can

I show a fairly good profit on my 150 shares of Continental Can bought at 34⅛ earlier this year. Should I sell now, or are the appreciation prospects for this stock such as to warrant continued retention? Should the recently approved three-year $25,000,000 program of expansion prove a drain on earnings? What is the outlook for the company's food cans and general line products? Does Continental have an adequate supply of tin to offset possible adverse developments of the war situation on this raw material? Are packers can prices being maintained at levels which should assure ample profit margins? I have found your advice to be accurate on several occasions in the past—and will value your opinions on this request.—E. B., Tulsa, Okla.

Continental Can Co., the second largest domestic manufacturer of containers, normally produces from 20 to 25 per cent of the nation's requirements. Roughly two-thirds of total output is supplied to the food packers with the remainder going to oil, paint, chemical, drug and various other industries. Small cans are being produced for individual portions of fruit juices. This type of business may become of increasing importance in the future. Can making and sealing machinery are also produced. A program of product diversification has been followed and in recent years the company has entered the paper container, paper package and crown cap fields. The management is quite optimistic about these latter products and in time they may contribute quite importantly to earnings. Large sums are spent annually on research and development. The 58 plants of the company are strategically located in this country, Canada and Cuba. The recently announced three-year $25,000,000 expansion and modernization program will be financed through the issuance of $21,000,000

of 25-year 3 per cent debenture notes. About 50 per cent of the concern's tin requirements are manufactured and best information is that a good supply of tin is on hand. Furthermore, stocks of tin in this country are large and the United States Government has taken steps to insure a continuous supply. This is in an effort to lessen the threat of loss of supply should the war spread to the Far East, the leading source of raw tin. Finances are strong and liquid. The 2,853,971 common shares are outranked by only 200,000 shares of preferred stock which are to be redeemed on January 2, next.

Through good times and bad times, profits have been relatively stable with net income in the twelve months ended September 30, last, being equal to $2.82 a share, up from $2.32 a share the year before. Demand for packers' cans has declined seasonally, but good levels of industrial production should stimulate sales of general line containers. The paper container division will benefit from rising levels of consumer purchasing power. Profit margins may narrow somewhat over coming months because of increased operating costs and higher normal taxes. The new excess-profits tax will have only negligible effects on profits over the intermediate term. Continued satisfactory earnings would appear to be in prospect. The present dividend rate is regarded as secure. The good earnings outlook and the liberal yield give the issue considerable attraction for those largely concerned with income. On this basis we are advising continued retention of the shares.

South Porto Rico Sugar Co.

Would you kindly give me your evaluation of the appreciation prospects for South Porto Rico Sugar? My 75 shares cost me 26¾ and would like to know whether retention is advisable. Have earlier estimates that the company's earnings should exceed 1939 been revised downward now that the domestic and world price of sugar has declined? If the war is prolonged is it not inevitable that the price of sugar should rise as it did in the last war? Have exports to Britain been increased, at what price? Producing two-thirds of its sugar in San Domingo, isn't South Porto Rico Sugar in a strong position?—T. O. Mc., Roanoke, Va.

South Porto Rico Sugar Co. is one of the leading producers of raw cane sugar. Approximately two-thirds of total output is grown in the Dominican Republic and sold in the world market, the remaining portion which is grown in Puerto Rico enters this country duty-free. Over the past several years annual output has averaged somewhat over 305,000 short tons. The growing and selling of sugar is a highly uncertain business depending as it does upon political vagaries and wind and weather conditions. The company is exceedingly strong financially with cash or its equivalent of $7,584,242, being considerably in excess of total near-term indebtedness of $559,030 on September 30, last. Capitalization is rather simple in that the 745,734 common shares outstanding are preceded in the capital structure by only 50,000 shares of $8 non-redeemable preferred stock.

The company has a long record of profitable operations, net income in the fiscal year ended September 30, last, being equal to $2.16 a share, up moderately from the $2.11 a share recorded the year before. The war as fought to date has acted against any substantial increase in sugar prices which is in sharp contrast to conditions during the world war. At this writing prospects do not favor any great change in prices or demand although an early culmination of the war or a more wide-spread conflict could result in fluctuations in either direction. This makes for the opinion that profits of the concern in question will remain fairly stable for some time. There are no actual figures available as to British demands for sugar but sales to that country may continue in fairly large amounts. To generalize somewhat we might point out that through production controls and quotas the United States Government in effect also controls prices. Through these legislative powers the domestic sugar market has been fairly stable in recent years and most producers, such as South Porto Rico, and refiners have benefited favorably. From the standpoint of dividends, shareholders in the subject concern have always received generous treatment and there is no question but that a good portion of future profits will continue to be distributed. The company is not likely to incur any great hardships under the new excess-profits tax for some time to come. The shares held are naturally quite speculative and at this time would appear rather limited in their appreciation possibilities. However, in view of the rather satisfactory income afforded we would advise their retention at these prices.

Texas Gulf Sulphur

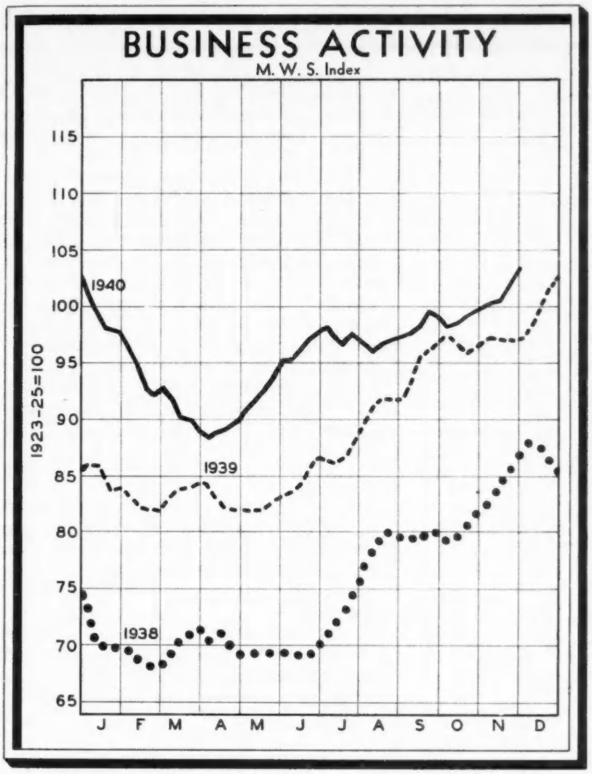
Do your analysts believe that Texas Gulf Sulphur at its present price amply discounts its favorable outlook? Would you recommend taking a small profit on my 75 shares now? Should sulphur shipments which seasonably wane during the winter months be expected this year? What are the possibilities that U. S. chemical companies and other users of sulphur may follow the lead of former European users who now find a satisfactory substitute for sulphur in gypsum, pyrites and by-product gas recovery? Are Texas Gulf Sulphur's reserves and plant facilities adequate for present defense needs—and potential demand of new chemical munitions and explosive plants now being built? What is the present status of orders and backlogs for armament purposes—oil refining, paper, rubber, textile, steel manufacture? —J. O. H., Montclair, N. J.

Texas Gulf Sulphur Co. is the world's largest producer of sulphur, the major portion of which is used in the manufacture of sulphuric-acid, the most widely used of all chemicals. Sulphuric acid is in demand throughout industry with the fertilizer, petroleum, paper, textile, chemical and paint industries being the chief consuming outlets. Operating results thus tend to reflect conditions of business in general. Export business normally accounts for about 25 per cent of total sales, but the war has served to expand demand from abroad. At last accounts the company was in a strong working capital position. The 3,840,000 shares of capital stock outstanding on September 30, last, enjoy full claim on assets and earnings.

Substantial minimum earning

(*Please turn to page 288*)

When *Quick* Service Is Required, Send Us a Telegram Prepaid and Instruct Us to Answer Collect.



CONCLUSIONS

INDUSTRY—Business best since 1929.

TRADE—Retail stores look for largest pre-holiday sales in a decade.

COMMODITIES—Prices hold within narrow range. Spot supplies restricted. Inventory accumulation orderly.

MONEY AND CREDIT—Commercial borrowings resume uptrend. Earnings assets of New York banks at new peak.

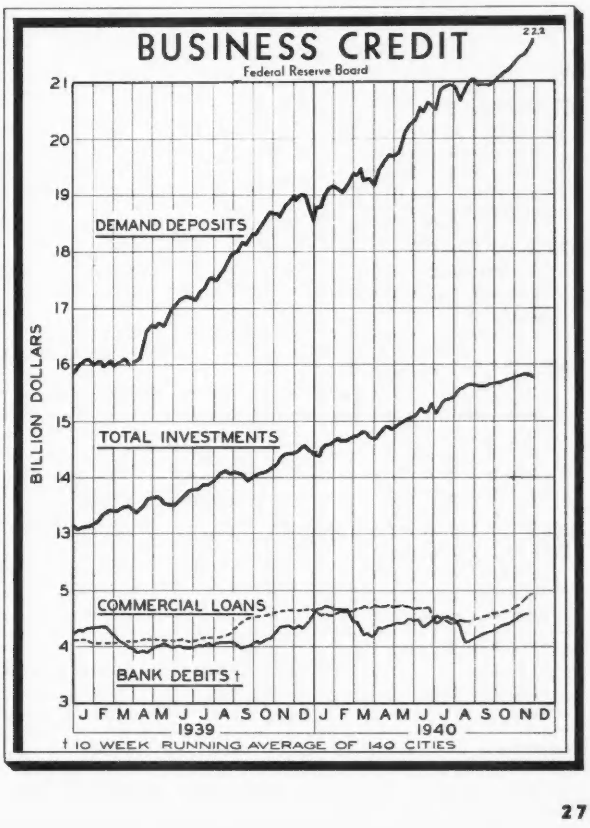
The Business Analyst

Less extensive shutdowns this year than customary for the Thanksgiving holidays have resulted in a sharp rise in **Business Activity** to the best level since 1929. At present writing this publication's index, without compensation for population growth, is less than 2% below the 1929 peak of 121.8 touched during the week ended August 17. This is in close agreement with recent estimates of the number **gainfully employed,** which place the total at 1.5% below the 1929 peak reached in October. On a per capita basis, however, our index of **Business Activity** must rise 10% from the present level to reach the 1929 peak of 113.4. A 10% increase in **employment** would reduce unemployment to about 2,000,000.

* * *

Per capita **Business Activity** in November reached approximately 101.5% of the 1923-5 average, compared with 98.7 during October and 97.0 for November, 1939. Adjusted to the basis on which the Federal Reserve Board's index of **industrial activity** is computed (without compensation for population growth), this publication's index of **business activity** (1935-9 average taken as 100) was 123 in November, against 120 during October and 118 for November of last year.

(Continued on following page)



Business and Industry

	Date	Latest Month	Previous Month	Last Year
INDUSTRIAL PRODUCTION(a)	Nov.	131(pl)	128	124
INDEX OF PRODUCTION AND TRADE (b)	Oct.	95	94	91
Production	Oct.	98	95	91
Durable Goods	Oct.	96	91	80r
Non-durable Goods	Oct.	98	97	97
Primary Distribution	Oct.	87	87r	87r
Distribution to Consumers	Oct.	96	96r	94r
Miscellaneous Services	Oct.	93	93r	86r
WHOLESALE PRICES (h)	Nov.	79.3	78.2	79.2
INVENTORIES (n. i. c. b.)				
Inventories (NS)	Oct.	122.6	122.4	103.4
New Orders (NS)	Oct.	197	176	141
Shipments (NS)	Oct.	147	136	125
COST OF LIVING (d)				
All items	Oct.	85.5	85.6r	85.3r
Food	Oct.	77.4	78.2r	79.7
Housing	Oct.	87.4	87.0	86.6
Clothing	Oct.	73.1	73.1	72.6
Fuel and Light	Oct.	85.9	85.3	85.2
Sundries	Oct.	97.9	97.9	96.8
Purchasing value of dollar	Oct.	117.0	116.8r	116.8
NATIONAL INCOME (cm)†	1st 10 mos.	60,652	53,981	57,352
CASH FARM INCOME†				
Farm Marketing	Oct.	$1,049	$854r	$960r
Including Gov't Payments	Oct.	1,125	908r	1,042r
Total, First 10 Months	Oct.	7,314	......	6,833
Prices Received by Farmers (ee)	Oct. 31	99	97	97
Prices Paid by Farmers (ee)	Oct.	122	122	122
Ratio: Prices Received to Prices Paid (ee)	Oct.	81	80	80
FACTORY EMPLOYMENT (f)				
Durable Goods	Oct.	109.0	104.8	96.1
Non-durable Goods	Oct.	109.9	109.5	110.8
FACTORY PAYROLLS (f)	Oct.	113.6	109.4	101.6
RETAIL TRADE				
Department Store Sales (f)	Nov.	101	94r	93
Chain Store Sales (g)	Oct.	120	121	113.3
Variety Store Sales (g)	Oct.	123	125	119
Rural Retail Sales (j)	Oct.	122	127.8	123.4
Retail Prices (s) as of	Sept.	93.2	92.9	90.2
FOREIGN TRADE				
Merchandise Exports†	Oct.	$343	$295	$332
Cumulative year's total† to	Oct.	3,374	......	2,517
Merchandise Imports†	Oct.	207	195	215
Cumulative year's total† to	Oct.	2,149	......	1,836
RAILROAD EARNINGS				
Total Operating Revenues★	1st 10 mos.	$3,539,445	......	$3,281,797
Total Operating Expenditures★	1st 10 mos.	2,563,885	......	2,413,033
Taxes★	1st 10 mos.	340,660	......	300,952
Net Rwy. Operating Income★	1st 10 mos.	527,102	......	457,433
Operating Ratio %	1st 10 mos.	72.44	......	73.53
Rate of Return %	1st 10 mos.	2.38	......	2.07
BUILDING Contract Awards (k)	Oct.	$383	$348	$261
F. H. A. Mortgages				
Selected for Appraisal†	Oct.	116	116	99
Accepted for Insurance†	Oct.	92	85	74
Premium Paying†	Oct.	80	68	61
Building Permits (c)				
214 Cities†	Oct.	$119	$104	$97
New York City†	Oct.	18	15	21
Total, U. S.†	Oct.	137	119	118
Engineering Contracts (En)†	Nov.	$383	$703	$302

PRESENT POSITION AND OUTLOOK

(Continued from page 279)

The Bureau of Agricultural Economics estimates **national income paid out** during the current calendar year at $74.1 billions and forecasts a total of $83.6 billions for next year. If substantiated by events, this would presuppose an increase of about 10% during the coming twelve months. **Farm cash income** next year is expected to increase by about $600 millions over the current year's total, despite prospects for smaller exports of cotton, wheat, tobacco and fruits. Farm income, including benefit payments, during the first ten months of the current year was $3.3 billions, or nearly 6%, above the like period last year.

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Present prospects are that the current year's earnings will be taxed under the law recently enacted by Congress; but that taxes next year may be increased enough to balance the Government's ordinary expenditures, leaving the defense program to be financed through further expansion in the National debt. Insofar as Government bonds issued for this purpose are purchased by the banks a considerable profit above taxes is bound to accrue to private business from the defense program.

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According to the National Industrial Conference Board, **new orders** booked by manufacturers during October were 12% ahead of September and 40% above last year; but **inventories** rose only 0.2% during the month to a level 18.6% higher than a year earlier. **Wholesale sales** in October were 10% above the like month of 1939. **Department store sales** in the week ended Nov. 16 were 9% ahead of last year, compared with a four-weeks' rise of only 5%. Present expectations are that **retail trade** between Thanksgiving and Christmas will set a ten-year record. With the **cost of living** only 0.2% above last year's average, factory weekly real **wages** show an increase of 5.6%. October's merchandise **exports** were 6% above the high level reported a year earlier, leaving a ten-months' increase of 34%. **Imports** were 4% below October of 1939, against a ten-months' rise of 16%.

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Owing in part to contra-seasonally heavy shipments of coal, **carloadings** during the past fortnight have shown considerably less than normal declines for this time of year; rising again to above last year's level. For the month of October, a 2% decrease in total operating revenues of Class I carriers resulted in an 18% drop in N. O. I., owing mainly to heavier maintenance expenditures.

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Building permits granted during October were 97.6% above last year, resulting in a ten-months' rise of 14.3%. Mr. Hugh Potter, a member of the advisory committee to the FHA, warned recently before a meeting of the National Association of Real Estate Boards that: "we are heading into rapidly increasing costs." The F. W. Dodge Corporation predicts, however, that building and engineering **construction** in 37 states East of the Rockies will reach $4.4 billions next year—the largest total in a decade.

	Date	Latest Month	Previous Month	Last Year
STEEL				
Ingot Production in tons★	Nov.	6,283	6,462	6,148
Pig Iron Production in tons★	Nov.	4,403	4,447	4,167
Shipments, U. S. Steel in tons★	Oct.	1,572	1,393	1,346
AUTOMOBILES				
Production				
Factory Sales	Oct.	514,374	284,583	324,689
Total 1st 10 Months	Oct. 31	3,674,434	......	2,895,059
Registrations				
Passenger Cars, U. S. (p)	1st 10 mos.	2,779,586	......	2,175,262
Trucks, U. S. (p)	1st 10 mos.	500,000 est.	......	408,002
PAPER (Newsprint)				
Production, U. S. & Canada★ (tons)	Oct.	429.7	360.2	359.6
Shipments, U. S. & Canada★ (tons)	Oct.	376.7	361.6	368.6
Mill Stocks, U. S. & Canada★ (tons)	Oct.	199.6	177.5	208.5
LIQUOR (Whisky)				
Production, Gals.★	Oct.	10,303	6,761	7,084
Withdrawn, Gals.★	Oct.	8,982	6,354	8,534
Stocks, Gals.★	Oct.	476,298	476,980	469,190
GENERAL				
Paperboard, new orders (st)	Oct.	486,181	399,133	497,834
Machine Tool Operations	Oct.	96.8	94.9	84.9
Railway Equipment Orders (Ry)				
Locomotive	Oct.	30	57	67
Freight Cars	Oct.	11,786	9,345	11,220
Passenger Cars	Oct.	......	21	8
Cigarette Production†	Oct.	16,448	14,890	15,384
Bituminous Coal Production★ (tons)	Nov.	40,300	38,700	43,301
Portland Cement Shipments★ (bb'ls)	Oct.	15,824	14,741r	12,829
Commercial Failures (c)	Oct.	1,111	976	1,234

PRESENT POSITION AND OUTLOOK

Domestic retail sales of **automobiles** in the first 20 days of November were 25% ahead of the like period a year ago. Fourth quarter assemblies in the U. S. and Canada are now expected to reach 1,465,000 units—more than 25% above the previous peak for that period set last year. Present expectations are that next year's work by the industry on national defense orders will not appreciably interfere with supplying the demand for motor cars.

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Unfilled orders for **locomotives** on Nov. 1 totaled 268, against 165 a year earlier. During October, 58 were shipped this year and 47 last year. The **railroad equipment** industry next year is expected to show the largest profit since 1930. **Bituminous coal** production between Jan. 1 and Nov. 23 came to 402,127,000 tons. This is more than for all of 1939. October shipments of **portland cement** were 23.3% above last year, and mill stocks were off 9%.

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Cigarette withdrawals during October were 7% above last year and the largest for any like month in history. Other tobacco products also rose sharply; but ten-month totals were up only fractionally. North American stocks of **newsprint,** compared with last year, were up 6.7%—with mill stocks down 4.6% and stocks at publishers and in transit 13.6% larger.

WEEKLY INDICATORS

	Date	Latest Week	Previous Week	Year Ago
M. W. S. INDEX OF BUSINESS ACTIVITY 1923-25—100	Nov. 30	103.4(pl)	102.1	97.1
ELECTRIC POWER OUTPUT				
K.W.H.†	Nov. 30	2,796	2,695	2,539
TRANSPORTATION				
Carloadings, total	Nov. 30	728,525	733,488	685,496
Grain	Nov. 30	33,689	33,323	35,769
Coal	Nov. 30	143,746	141,956	143,151
Forest Products	Nov. 30	38,521	39,083	28,728
Manufacturing & Miscellaneous	Nov. 30	316,544	310,765	254,234
L. C. L. Mdse	Nov. 30	149,915	140,219	152,737
STEEL PRICES				
Pig Iron $ per ton (m)	Dec. 3	22.61	22.61	22.61
Scrap $ per ton (m)	Dec. 3	21.17	21.00	18.25
Finished c per lb. (m)	Dec. 3	2.261	2.261	2.261
STEEL OPERATIONS				
% of Capacity week ended (m)	Dec. 5	97	97.5	94.5
CAPITAL GOODS ACTIVITY (m) week ended	Nov. 30	126.2	121.0	101.6
PETROLEUM				
Average Daily Production bbls.★	Nov. 30	3,335	3,766	3,289
Crude Runs to Stills Avge. bbls.★	Nov. 30	3,510	3,510	3,497
Total Gasoline Stocks bbls.★	Nov. 30	80,284	80,100	76,790
Fuel Oil Stocks, bbls.★	Nov. 30	106,618	106,871	110,360
Crude—Mid-Cont. $ per bbl	Dec. 7	1.02	1.02	1.02
Crude—Pennsylvania $ per bbl	Dec. 7	1.48	1.48	1.98
Gasoline—Refinery $ per gal	Dec. 7	.05½	.05⅛	.06⅞

PRESENT POSITION AND OUTLOOK

Electric power output has just risen to a new high record, with the margin of increase over last year widening to 10%. The SEC is considering action to force higher depreciation charges on utilities by restricting common stock dividends. The SEC may also promulgate a rule requiring sealed bids on future offerings of utility securities.

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With incoming orders continuing to top shipments by a large margin, the **steel operating rate** pursues its slow advance against the handicap of a capacity inadequate to meet demand promptly. With no let-up in sight, the industry has at last decided to launch an expansion program to provide facilities for handling larger requirements of defense activities which will reach urgent proportions six months hence. While the amount of expansion has not as yet been revealed, some officials think it should be at least 12%.

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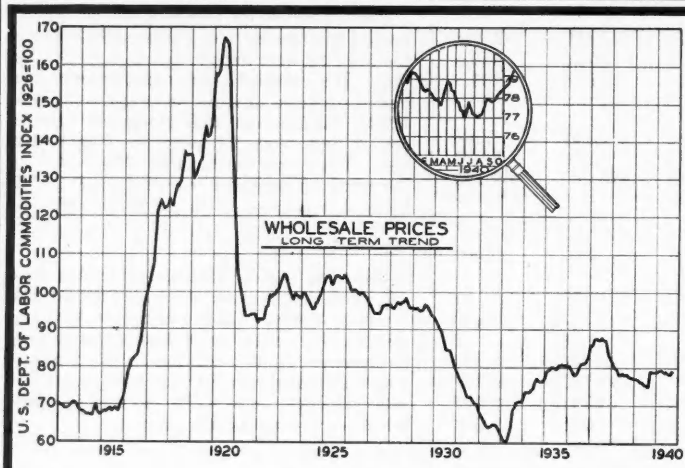
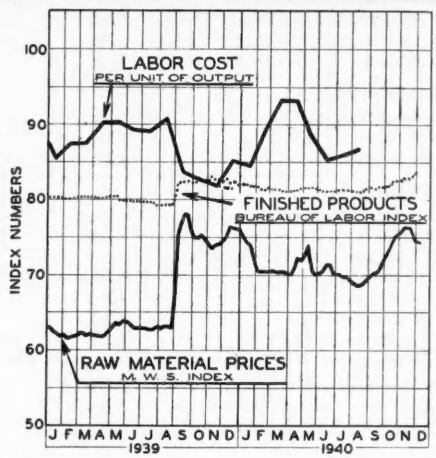
Production in the **oil** industry is still in excess of current demand and, while some authorities are advising enlarged storage facilities to meet an expected large increase in consumption next year, in other quarters there is uneasiness lest the necessity of implementing the good neighbor policy, for purposes of hemiphere defense, may lead to heavier imports of foreign **crude.**

†—Millions. ★—Thousands. (a)—Revised Index Federal Reserve 1935-39—100. (b)—Federal Reserve Bank of N. Y. 100%—estimated long term trend. (c)—Dun & Bradstreet. (cm)—Dept. of Commerce estimates of income paid out. (d)—Nat. Ind. Con—f. Bd. 1923 100. (e)—Dept. of Agric., 1924-29—100. (ee)—Dept. of Agric., 1909-14—100. (En)—Engineering News-Record. (f)—1923-25—100. (g)—Chain Store Age 1929-31—100. (h)—U. S. B. L. S. 1926—100. (j)—Adjusted—1929-31—100. (k)—F. W. Dodge Corp., (m)—Iron Age. (n)—1926—100. (n. i. c. b.)—Nat. Ind. Conf. Bd. 1935-39—100. (p)—Polk estimates. (pc)—Per cent of capacity. (pl)—Preliminary. (r)—Revised. (Ry)—Railway Age. (s)—Fairchild Index, Dec., 1930—100. (st)—Short tons. (Ns)—New series.

Trend of Commodities

Commodity prices, as a whole, were virtually unchanged over the past fortnight, although conspicuous strength was displayed by several import commodities, notably rubber and wool. Growing fears that a serious shortage in shipping accommodations may be in the making appear to have been responsible for higher quotations on import materials. In the domestic picture, prices of agricultural commodities were mixed, with wheat and corn receding moderately, while cotton prices rose to the best prices for the current season. Forward buying continues on a fairly large scale, although it is quite evident, despite numerous shortages in the nearby supply situation, that such accumulation is being done in an orderly fashion and without any earmarks of a stampede. Inventories have risen but there is nothing to indicate that they are unwieldy in proportion to the present and potential rate of industrial production. The conviction is pretty well established that nothing worse than brief and sporadic periods of price weakness is likely to be witnessed for some months.





U. S. DEPARTMENT OF LABOR INDEX OF 28 BASIC COMMODITIES
Spot Market Prices—August, 1939, equals 100

	1940 High	Low	Nov. 29	Dec. 6
28 Basic Commodities	124.2	105.6	117.1	122.1
Import Commodities	132.9	104.7	118.9	111.5
Domestic Commodities	118.7	105.5	115.9	121.4

	1940 High	Low	Nov. 29	Dec. 6
Domestic Agricultural	123.8	111.4	117.7	122.0
Foodstuffs	120.0	100.5	120.8	111.9
Raw Industrial	128.4	101.3	115.7	122.1

	Date	Latest Wk. or Mo.	Previous Wk. or Mo.	Year Ago
COTTON				
Price cents per pound, closing				
December	Dec. 7	10.18	10.04	10.77
March	Dec. 7	10.23	10.07	10.51
Spot	Dec. 7	10.38	10.43	10.89
(In bales 000's)				
Consumption, U. S.	Oct.	771	629	687
Exports, wk. end	Dec. 6	28	33	212
Total Exports, season Aug. 1 to	Dec. 6	470	442	2,450
Government Crop Est.	Nov. 1	12,847	12,741	11,817(ac)
Active Spindles (000's)	Oct.	22,457	22,278	22,667
WHEAT				
Price cents per bu. Chi. closing				
December	Dec. 7	88⅞	89⅜	97⅝
May	Dec. 7	86⅛	87¼	94⅞
Exports bu. (000's) since July 1 to	Nov. 30	46,045	44,287	53,178
Exports bu. (000's) wk. end	Nov. 30	1,758	3,779	4,836
Visible Supply bu. (000's) as of	Nov. 30	156,108	158,541	127,678
Gov't Crop Est. bu. (000's)	Nov. 1	792,332	792,332	754,971(ac)
CORN				
Price cents per bu. Chi. closing				
December	Dec. 7	59⅝	62½	54¼
May	Dec. 7	60	61⅞	55¾
Exports bu. (000's) since July 1 to	Nov. 30	19,924	18,670	6,991
Visible Supply bu. (000's) as of	Nov. 30	58,730	57,399	36,895
Gov't Crop Est. bu. (000's)	Nov. 1	2,433,523	2,352,185	2,619,317(ac)

PRESENT POSITION AND OUTLOOK

Cotton. Before the close of last week futures prices reached new highs for the season. Mill buying contributed to the advance as well as the scarcity of contracts. Although domestic consumption continues high, unfilled orders at the end of November were larger than in the two preceding months. Exports of American cotton from August through October of this year were only one-fifth as large as in the corresponding months of last season and the smallest for the like period in 63 years. An item of interest is that in October 54,000 bales of cotton were exported to Russia, which previously had not purchased as much as 1,000 bales in any season since 1934.

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Wheat. Commercial supplies continue to decline due to the large stocks held off the market either under the Government loan or through the insurance program. The Commodity Credit Corporation reports as of December 3 that wheat loans totaled 263,236,849 bushels as compared with 161,925,398 bushels a year ago.

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Corn. At the close of last week, weakness in corn developed with the liquidation of the December contracts as the list was down from ¾ to to 1⅞ cents a bushel. This was the heaviest decline for one day since early in August and prices were the lowest since the beginning of November.

	Date	Latest Wk. or Mo.	Previous Wk. or Mo.	Year Ago
COPPER				
Price cents per lb.				
Domestic	Dec. 7	12	12	12.50
Export f. a. s. N. Y.	Dec. 7	10.25	10.00	12.85
Refined Prod., Domestic*	Oct.	83,076	82,843	NA
Refined Del., Domestic*	Oct.	103,771	96,485	......
Refined Stocks, Domestic*	Oct.	164,618	185,313	......
Copper Sales, Domestic*	Nov.	85,006	125,508	51,592
TIN				
Price cents per lb., N. Y.	Dec. 7	50.20	50.20	51.12
Tin Plate, price $ per box	Dec. 7	5.00	5.00	5.00
World Visible Supply† as of	Nov. 30	40 046	40,631	38,035
U. S. Deliveries†	Nov.	12,505	11,820	7,870
U. S. Visible Supply† as of	Nov. 30	26,998	28,851	21,058
LEAD				
Price cents per lb., N. Y.	Dec. 7	5.50-5.55	5.80-5.90	5.50
U. S. Production*	Oct.	56,600	51,441	42,563
U. S. Shipments*	Oct.	62,496	53,456	66,060
Stocks (tons) U. S., as of	Oct. 31	35,386	41,292	73,963
ZINC				
Price cents per lb., St. Louis	Dec. 7	7.25	7.25	6.00
U. S. Production*	Nov.	56,481	56,422	57,941
U. S. Shipments*	Nov.	61,145	64,787	64,407
Stocks U. S., as of*	Nov.	17,936	22,600	61,522
SILK				
Price $ per lb. Japan xx crack	Dec. 7	2.56½	2.57	3.62
Mill Dels. U. S. (bales)	Nov. 30	36,374	39,877	32,241
Visible Stocks N. Y. (bales) as of	Oct. 31	48,297	44,454	35,935
RAYON (Yarn)				
Price cents per lb	Dec. 7	53	53	53
Consumption (a)	Nov.	35.0	36.9	33.3
Stocks as of (a)	Nov.	6.2	6.8	7.7
WOOL				
Price cents per lb. raw, fine, Boston	Dec. 7	1.08	1.08	1.04
Consumption, period ending (a)	Oct. 31	39,240	28,608	33,985
HIDES				
Price cents per lb. No. 1 Packer	Dec. 7	13.50	13.50	14.50
Visible Stocks (000's) as of	Oct. 31	......	12,569	12,489
No. of Mos. Supply as of	Oct. 31	......	7.3	6.3
Boot and Shoe Production, Prs.★	Oct.	36,566r	34,992r	37,273
RUBBER				
Price cents per lb	Dec. 7	21.00	20.87	19.97
Imports, U. S.†	Oct.	74,696	78,792	45,628
Consumption, U. S.†	Oct.	56,477	50,206	55,764
Stocks U. S. as of	Oct.	259,140	241,358	119,404
Tire Production (000's)	Oct.	5,082	4,417	5,392
Tire Shipments (000's)	Oct.	5,561	4,512	5,162
Tire Inventory (000's) as of	Oct.	9,448	9,886	8,382
COCOA				
Price cents per lb., Dec	Dec. 7	5.30	5.03	5.54
Arrivals (bags 000's)	Oct.	402	534	467
Warehouse Stocks (bags 000's)	Dec. 7	1,283	1,279	1,127
COFFEE				
Price cents per lb. (c)	Dec. 7	7¼-7½	7½	7⅜
Imports, season to (bags 000's)	Oct. 31	4,215	3,219	4,255
U. S. Visible Supply (bags 000's)	Nov. 1	1,694	1,488	1,977
SUGAR				
Price cents per lb.				
Raw	Dec. 7	2.87	2.85	2.95
Refined (Immediate Shipment)	Dec. 7	4.35	4.35	4.70
U. S. Deliveries (000's)*	1st 10 mos.	5,675	......	5,929
U. S. Stocks (000's)* as of (rr)	Oct. 31	675	810	696

PRESENT POSITION AND OUTLOOK

Copper. News continues to be scarce as to what the Government intends to do with regard to the manner in which domestic supplies of copper will be augmented, when and if the expected shortage eventually comes. Neither is there any news about steps as to control of exports. Of the total tonnages of copper exported in the first ten months of this year Japan accounted for approximately one-third, or 105,050 tons.

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Lead. Last week a price cut of $3 a ton to 5.50 cents a pound by American Smelting and Refining was caused by the continued light demand for lead. This price cut is considered temporary in view of the fundamentally favorable statistics and a restoration of reduction in the not too distant future would not be surprising.

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Zinc. A highlight in an otherwise dull market last week was the announcement that the Board of Governors of the Commodity Exchange had appointed a special committee to ascertain the long and short position on the exchange.

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Silk. According to the National Association of Hosiery Manufacturers, a new record of mill shipments of hosiery was established during the month of October.

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Rayon. In the first nine months of this year, exports of rayon textiles products from the United States increased to 9,250,000 pounds as compared with 7 million pounds in the like period of 1939.

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Wool. Unfilled orders in men's woolens for civilian use are estimated in the trade at well over 30,000,000 yards. These orders added to the heavy contracts for military use put the industry in the strongest position in years.

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Cocoa. Prices were at the highest levels since June 25, at the close of the last week. Behind the evidence were the fears of possible shortage of shipping from the West African coast.

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Coffee. Signing of the coffee quota agreement by representatives of Latin-America coffee-producing countries and the United States successfully culminates two years of effort by the coffee industry. The agreement runs for three years and exports are divided among 14 Latin-American countries.

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Sugar. The estimate by the Secretary of Agriculture of the country's sugar requirements for 1941 at 6,616,817 short tons was in line with private estimates.

†—Long tons. *—Short tons. (a)—Million pounds. (ac)—Actual. (c)—Santos No. 4 N. Y. (pl)—Preliminary. (rr)—Raw and refined. ★—Thousands. NA—Not available.

Money and Banking

	Date	Latest Week	Previous Week or Month	Year Ago
INTEREST RATES				
Time Money (60-90 days)	Dec. 7	1¼%	1¼%	1¼%
Prime Commercial Paper	Dec. 7	⅝-1%	⅝-1%	⅝-1%
Call Money	Dec. 7	1%	1%	1%
Re-discount Rate, N. Y.	Dec. 7	1%	1%	1%
CREDIT (millions of $)				
Bank Clearings (outside N. Y.)	Nov. 30	3,000	2,910	2,835
Cumulative year's total to	Nov. 30	13,528	......	12,349
Bank Clearings, N. Y.	Nov. 30	3,224	3,017	3,664
Cumulative year's total to	Nov. 30	14,413	......	12,921
F. R. Member Banks				
Loans and Investments	Nov. 27	24,902	24,944	23,159
Commercial, Agr., Ind. Loans	Nov. 27	4,911	4,908	4,381
Brokers Loans	Nov. 27	469	455	660
Invest. in U. S. Govts	Nov. 27	9,543	9,529	8,713
Invest. in Govt. Gtd. Securities	Nov. 27	2,707	2,700	2,408
Other Securities	Nov. 27	3,524	3,605	3,382
Demand Deposits	Nov. 27	22,189	21,961	18,972
Time Deposits	Nov. 27	5,375	5,382	5,232
New York City Member Banks				
Total Loans and Invest.	Dec. 4	9,905	9,843	9,003
Comm'l Ind. and Agr. Loans	Dec. 4	1,885	1,868	1,703
Brokers Loans	Dec. 4	320	339	507
Invest. U. S. Govts	Dec. 4	4,088	4,088	3,571
Invest. in Gov't Gtd. Securities	Dec. 4	1,554	1,530	1,222
Other Securities	Dec. 4	1,277	1,243	1,207
Demand Deposits	Dec. 4	10,195	10,225	8,416
Time Deposits	Dec. 4	705	709	658
Federal Reserve Banks				
Member Bank Reserve Balance	Dec. 4	14,154	14,292	11,617
Money in Circulation	Dec. 4	8,569	8,465	7,545
Gold Stock	Dec. 4	21,827	21,755	17,408
Treasury Currency	Dec. 4	3,074	3,069	2,949
Treasury Cash	Dec. 4	2,204	2,182	2,391
Excess Reserves	Dec. 4	6,820	6,930	5,150
NEW FINANCING (millions of $)				
Corporate	Nov.	392.6	345.3	112.5
New Capital	Nov.	168.7	47.3	21.6
Refunding	Nov.	92.5	392.6	90.8

COMMENT

The feature of the latest weekly report **New York City Member banks** was a sharp revival in the volume of loans to commerce, industry and agriculture and the rise in the total earnings assets of these banks to a new all-time high. Whereas the net increase in commercial borrowings in the two preceding weeks amounted to only $2,000,000, the gain of $17,000,000 shown in the most recent week revived hopes that working capital needs impelled by the national defense program would prevent, or at least alleviate, the normal seasonal drop in business loans. Total loans and investments of New York banks expanded by $62,000,000, despite a drop of $19,000,000 in borrowings by brokers and security dealers. Additions to security portfolios included $13,000,000 in Treasury notes and $22,000,000 in Treasury bonds, with total holdings of the latter reaching a new high at $2,796,000,000. Holdings of government guaranteed issues increased $24,000,000 and other securities were up $34,000,000.

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Over the next few months there will probably be considerable discussion in Washington and banking circles bearing on the need for granting broader powers over interest rates and excess reserves to the Federal Reserve System. The first trial balloon on this subject was launched by Marriner S. Eccles, chairman of the Board of Governors of the Federal Reserve system. Mr. Eccles' speech made before the Industrial Conference Board is discussed in connection with the bond market outlook appearing on page 258 of this issue. This situation could be upsetting, at least temporarily, to the bond market, although the Treasury can doubtless be counted on to oppose strongly any new legislation which might harm its financing plans.

THE MAGAZINE OF WALL STREET COMMON STOCK INDEX

No. of Issues (1925 Close—100)	1940 indexes High	Low	Nov. 30	Dec. 7
309 COMBINED AVERAGE	67.1	45.3	54.3	54.4
5 Agricultural Implements	103.6	63.6	90.2	88.8
6 Amusements	28.8	15.8	22.0	22.2
15 Automobile Accessories	98.8	65.5	90.9	91.7
12 Automobiles	12.0	7.7	10.2	9.9
12 Aviation (1927 Cl.—100)	235.5	151.8	183.7	182.4
3 Baking (1926 Cl.—100)	12.3	7.9	8.6	8.7
3 Business Machines	117.3	75.1	90.2	89.7
9 Chemicals	174.1	120.5	150.9	151.0
20 Construction	33.6	19.4	26.5	26.4
5 Containers	251.1	168.6	193.1	194.3
9 Copper & Brass	103.6	64.4	89.0	84.7
2 Dairy Products	33.6	24.7	26.6	26.2
7 Department Stores	20.9	13.8	19.3	19.4
6 Drugs & Toilet Articles	58.4	36.1	37.5	37.1
2 Finance Companies	272.1	164.3	188.3	189.4
7 Food Brands	117.8	78.4	83.5	81.1
3 Food Stores	56.1	37.7	44.7	44.2
4 Furniture	56.9	32.6	42.1	40.9
3 Gold Mining	968.7	551.4	702.8	700.0
6 Investment Trusts	24.5	15.5	17.8	17.4
3 Liquor (1932 Cl.—100)	164.2	109.1	141.3	136.9
9 Machinery	116.2	81.0	105.4	105.3

(Nov. 14, 1936 Close—100)	1940 Indexes High	Low	Nov. 30	Dec. 7
100 HIGH PRICED STOCKS	68.30	49.40	58.46	58.28
100 LOW PRICED STOCKS	58.80	36.43	46.34	45.37
2 Mail Order	94.9	63.8	73.1	74.1
4 Meat Packing	70.0	41.5	47.1	46.0
13 Metals, non-Ferrous	159.0	106.7	139.1	135.2
3 Paper	19.4	11.8	15.2	15.1
22 Petroleum	86.7	63.1	71.3	70.6
18 Public Utilities	57.6	35.1	36.6	36.2
3 Radio (1927 Cl.—100)	12.9	7.9	10.8	10.2
9 Railroad Equipment	53.2	34.3	46.0	45.6
22 Railroads	13.6	7.3	8.2	7.9
2 Realty	2.7	1.2	1.5	1.7
2 Shipbuilding	118.1	73.5	103.9	116.8
11 Steel & Iron	91.8	59.6	81.5	82.1
2 Sugar	32.7	17.3	19.7	19.2
2 Sulphur	181.8	135.4	180.0	179.6
3 Telephone & Telegraph	47.5	30.5	33.9	33.7
4 Textiles	57.3	36.2	49.0	48.4
4 Tires & Rubber	15.3	8.4	11.0	10.7
4 Tobacco	90.2	70.8	71.1	70.8x
4 Traction	43.5	32.7	42.6	42.4
4 Variety Stores	248.3	177.2	215.7	213.3
20 Unclassified (1939 Close—100)	103.9	67.3	80.5	80.0

x—New LOW this year.

As I See It

(*Continued from page 243*)

The Chinese adventure has turned out to be a desperate gamble which Japan cannot readily write off because of the great cost in men and money. Instead, she will attempt through the puppet Wang Ching-Wei regime to turn this gamble into a long term speculation, at the same time that she seeks to recoup her fortune at the expense of France, the Netherlands and Great Britain.

Through Nazi connivance Japan has managed to gain access to French Indo-China where she is endeavoring to establish a base for operations against Singapore and the Dutch East Indies,—only about 1,000 miles away.

Reports speak of large concentrations of transports and battleships off Hainan. Whether poised for action toward the south or for use in Indo-China depends on the trend of events.

The Japanese have long desired Indo-China with its fertile rice fields so close to home, and mean to have it. But,—the real goal of Japan's ambition is the enormously rich Dutch East Indies, also of great strategic value. These islands, lying athwart the trade routes of the East, would enable the Nipponese to become the dominant power in the Pacific, with ready access to Australia and New Zealand,—and a threat to the United States.

But the Japanese can never be securely established in this position so long as the British retain their hold on Singapore. Yet I doubt whether Japan would be foolhardy enough to attempt to take this stronghold at this time with a victorious Britain in control of the Mediterranean—the United States on guard in the Pacific—and an unfriendly Russia hovering to the West.

If, however, the British suffer a serious defeat, the situation may change. Then the Nazis are certain to ask Japan to take the risk—which would mean fighting the United States,—and Japan would realistically demand the Dutch East Indies as her reward. Yet, although Hitler will promise it to Japan,—Japan knows if the Axis wins she will be called upon to give it up since neither Hitler nor Stalin would feel safe with Japan occupying Singapore.

On this reasoning, Japan, taking into consideration her economic weakness—her considerable naval inferiority to the United States—would be committing suicide to tackle the job of risking a war with the United States. The situation would change, however, if England is defeated in the Atlantic.

The United States

Thus far our Government has handled Japan amazingly well. We have been firm without being offensive. In spite of the strength of our naval position, we have relied on constant pressure and countermoves to limit Japan's freedom of action. Our loan of $100,000,000 to China the day after Japan's announcement of Wang Ching-Wei as the new ruler of China was a move in this direction. Our assurance of aid to Greece served as well in the Far East by further strengthening Britain in the Mediterranean. Our willingness to assist Franco too must not be construed as appeasement,—but that we recognize Germany's changed position in relation to Gibraltar, due to Italian weakness.

It is evident that our Government expects to solve the Far Eastern problem without a war—and that there is no reason to doubt our ability to beat Japan if we have to fight her.

If our quarrel with Tokio had merely to do with investments in the Far East, this could easily be solved. But what we are fighting for is economic stability in the United States,—for the maintenance of our standard of living. A Japan in control of the Pacific would inevitably dominate China. From this union would emerge a flood of goods produced by workers barely on a subsistence level which would strike heavily at our economy. And, if in our attempt to prevent economic disaster, we would close our markets to Japan, we might at that time be faced with war with a Japan of equal and possibly greater strength than the United States.

This is the kernel of the Far Eastern situation.

The bargaining power of the United States with Japan is very great, and there is no doubt that we can come to terms in a way that would save Nippon's face,—and satisfy our requirements,—if Hitler falters.

Another Look at the Bond Market

(*Continued from page 259*)

never favored *artificially low rates* (our italics) such as have been brought about through an uncontrolled surplus of excess reserves. No such oversupply of excess reserves is necessary to carry out a policy of monetary encouragement to business recovery.

"Instead excessively low interest rates tend ultimately to induce inflated prices of Governments, municipals and other high grade securities. The effects are reflected in credit lines generally, and are felt by insurance companies, savings banks, educational institutions, and other fiduciaries representing the accumulations of many millions of our people, small as well as large savers.

"Moreover, this creates a future problem for monetary authorities because at such a time as it may become necessary to curtail further credit expansion, as a safeguard against inflationary developments, this step cannot be taken without causing a decline in the price of outstanding securities. So long as the banks have an oversupply of excess reserves, they have every inducement to invest in Government securities. That inducement can only be reduced or removed by reducing or removing the excess reserves which . . . should be adjusted to the normal requirements of general business. If this is done the rate on Government bills and short term notes would be likely to increase sufficiently to attract the large amounts of corporate balances representing reserves of various kinds that have accumulated. For the most part these funds are now deposited in banks and earn nothing for their corporate owners. They would be inclined to invest them in short term Governments *if the yield were raised from the prevailing arti-*

ficially low levels (our italics). At the same time long term issues should be adapted to the requirements of insurance companies, savings banks and individual and institutional investors. Thus the non-banking market for Government securities would be broadened out to absorb whatever Government financing may be necessary during the period in which we are making large defense outlays."

It is only too obvious from the foregoing that Mr. Eccless is making a strong plea for the necessary legislation to effect a drastic reduction in excess banking reserves. He is definitely on record as favoring a higher rate of interest on Government bonds, implying that it is desirable to siphon a large portion of savings into Government securities as means of safeguarding against possible credit inflation. Government bonds when purchased by corporations or individuals do not have the effect of swelling excess bank reserves as is the case when they are directly acquired by the commercial banks.

It is a pretty safe guess that the Treasury Department will oppose any steps calculated to raise bank reserve requirements, reduce excess reserves and raise interest rates. Precisely how long such opposition will effectively forestall legislative or official action is anybody's guess. It may even turn out that nothing more than focusing the light of publicity on dangers existent in the present situation will be necessary to produce a hardening in interest rates—and lower bond prices.

But in so far as the interests of the individual investor are concerned, the point is not the precise duration of inflated bond prices. It is more to the point to revert to statement made at the beginning of this discussion: High grade bond prices are at an all-time high, and the obtainable yield is so low as to be inadequate compensation for assuming the risk of possible capital loss. A 3% bond selling at 109 yields a current return of 2.75%. Were the general level of interest rates to harden, an increase of only ¼ of 1% in the current yield would be sufficient to reduce the price of this bond 9 points, or 90 dollars, equal to three years' interest payments.

What is true in the case of high

grade bonds is also proportionately true of bonds of somewhat lesser quality, as well as high grade preferred stocks. A decline in high grade bond prices would also produce a relative decline in the value of these issues.

It must be concluded, therefore, that at the present time neither good bonds nor high grade preferred stocks offer sound investment inducements to the average individual investor. Even at the expense of having some portion of capital idle, common sense would seem to favor waiting for a more attractive price level to make new commitments.

Answers to Inquiries

(*Continued from page 277*)

power has been exhibited with net in the twelve months ended September 30, last, rising to the equal of $2.63 a share from $1.65 a share the year before. Shipments may be somewhat smaller over early months since a large part of the output is shipped by water on the Mississippi River and the Great Lakes where navigation is difficult during the winter months. Earnings may thus recede somewhat in the current quarter. Reserves are substantial and a long life is indicated for the properties. The company is in a position to benefit to a marked degree from the war, our own defense program and present high levels of industrial production in general. Because of fair prices for the product, the use of sulphur substitutes in industry is not expected to gain any strong foothold. We have never seen any figures that would give any indication as to the amount of business on hand. Due to its large property investment the new excess-profits taxes are not likely to be of any great importance to the concern for some time yet. $2.50 a share in dividends have been declared for 1940 and no further distributions would appear to be in prospect prior to the year end. The regular 50-cent quarterly dividend may continue to be supplemented occasionally by an extra payment. The issue is not likely to be a dynamic market performer but neither does it appear to be over-valued at present prices. Combining a good yield with possibilities of market enhancement the shares appear as rather attractive holdings at this time.

General American Transportation

Would you advise sale or retention of 75 shares of G. A. T. bought at 53? Do your analysts believe a steady price advance for this stock is probable from now on—or does its present price amply discount favorable possibilities to the year-end? Has the company yet realized any direct benefits of the U. S. Defense Program? Do earlier estimates that General American Transportation should earn $4.50 this year still hold? Have freight and tank car rentals . . . terminal facilities begun to supplement earnings from manufacturing divisions? Your counsel will be greatly appreciated.—Mrs. S. E., Louisville, Ky.

General American Transportation Corp. is largely concerned with the leasing of tank and refrigerator cars used in the transportation of food and petroleum, and other liquid products. Some 56,000 cars are operated and exclusive operating agreements are held with various large railroad systems and leading producers of foods, chemicals, oils and related products. The company is also an important factor in the car building and repairing field. A program of expansion and diversification has resulted in the concern entering the aviation and motor bus fields. These latter operations are of little consequence to earnings at this time but both may be of some aid in 1941. Other activities include the operation of tank storage terminals and the pre-cooling of refrigerator cars. The management is highly regarded and a strong financial position has long been maintained. The 1,032,315 common shares outstanding follow in claim a funded indebtedness of $29,005,000.

Aided by the stabilizing influence of the transportation division, the company has been able to establish an enviable past earnings record. In 1939, $3.11 a share was realized, up moderately from the $2.91 a share recorded in 1938. Increased activity in the manufacturing division served to materially improve results in the first nine months of 1940, when net income rose sharply to the equivalent of $3.24 a share from only $1.96 a share in the corresponding interval of 1939. Because of the heavy amount of invested capital profits could improve considerably before results would be affected by the new excess-profits tax. Estimates on full year net place per share earnings somewhere between $4.30 and $4.50 a share. Car rentals may score further modest gains over early 1941, but most of the earnings improvement that is apparently in prospect will be due to high rates of activity in the manufacturing division. A large backlog of railway car business is on hand and with railroad earnings on the uptrend incoming orders should continue at fairly good rates. Our records fail to show the company as being in receipt of any armament business but the 40 per cent controlled Pressed Steel Car Co. has received considerable business of this type. A dividend of $1.75 a share will be paid on December 30, next, thus making full year distributions equal to $3 a share in contrast to $2.37½ a share paid in 1939. In addition to a satisfactory yield the shares would appear to possess better than average appreciation possibilities for holding over the longer term. On this basis we are counseling continued speculative retention.

International Telephone & Telegraph Co.

I am asking for your advice again on my 300 shares of I. T. & T. bought at 7⅞. What hopes are there for this stock in view of developments? Does Japan's entry into the Rome-Berlin axis seriously endanger I. T. & T.'s Shanghai interests? Have the directors of the company's Rumanian subsidiary been deposed by the Iron Guards as threatened? What should this mean? Please give me a summarized conclusion on the present status of the company's operations in Europe, the Far East and South and Central America. Are there possibilities at all that I. T. & T. can advance in the face of the present war abroad?—A. V. G., Buffalo, New York.

International Tel. & Tel. Corp. is a holding company for units operating in the telephone, cable, radio communications and equipment manufacturing industry. Telephone activities are confined to South America, Rumania, Shanghai and the West Indies. Cable and radio interests are largely restricted to Central and South American countries. The equipment manufacturing plants are located in England, Belgium and France. Under normal conditions sales were world-wide with the exception of Canada, Newfoundland and United States. About 70 per cent of assets are in telephone companies, 18 per cent in manufacturing plants and the remainder scattered

over other activities. As of the 1939 year-end 56 per cent of consolidated assets were located in Latin America and the United States. Communications and manufacturing activities are of about equal importance to net income. With operations widespread the present war has naturally had a serious effect on earnings. Finances were none too strong on December 31, last. On that date current assets of $54,465,311 compared with current liabilities of $29,703,238. However, cash in the United States amounted to only $6,815,996. Adverse exchange rates and restrictions on the export of capital are only some of the difficulties with which the company has to contend. The capital structure is made up of 6,399,002 capital shares and a funded debt of $155,378,043.

Earnings over the past several years have averaged about 74 cents a share. However, a loss of 2 cents per share was incurred in the initial half of the current year as against profits of 21 cents a share in the January-June interval of 1939. These figures exclude all European, Mexican, cable and radio telegraph subsidiaries. Properties outside the war zone are showing moderate gains but the betterment will not offset loss of revenues from subsidiaries no longer included in consolidated returns. Accordingly, with the war likely to continue for some time the outlook is for a rather extended period of relatively unsatisfactory earnings. We understand that the company is manufacturing airplane instruments in certain of its European plants but because of the present method of reporting earnings no direct benefit will accrue to the parent. Japan's entry into the Rome-Berlin Axis has not resulted in any sharp political or economical upheavals in Shanghai and business of the subsidiary in that area is being carried on as usual. We learn from the company that American representatives on the Board of Directors still maintain their positions as of this writing. In view of the above there is little to be optimistic about concerning the common stock but at present sharply depressed prices considerable recognition would appear to be given to the many uncertainties involved and where one is willing to exercise patience we would advise retention of the issue on a long term basis, because of the rather favorable outlook for the company under peace-time conditions.

Western Union Telegraph Co.

My 100 shares of Western Union cost me 27⅛. Should I sell now—or has this stock yet to reflect the upward spurt in earnings registered for the first eight months of this year as well as possibilities ahead? Is it probable that earnings will continue at recent high levels? Has income from the company's profitable trans-Atlantic cables suffered as a result of Great Britain's blockade of the European Continent? Are there any new possibilities of a downward rate revision by the F. C. C.?—Dr. L. M., Chicago, Ill.

Western Union Telegraph Co. is the leading factor in the domestic land line telegraph field. Supplementary activities include the operation of cables to Europe and the West Indies as well as tickers for security and commodity prices. About 80% of total revenues are derived from telegraph activities, 7% from cable, 5% from ticker service and the remainder from miscellaneous sources. Earnings tend to follow trends of industrial production. Finances are in good shape and capitalization consists of 1,045,592 capital shares and funded debt of $87,400,000.

In spite of increasingly severe competition from air mail, long-distance telephone, the teletypewriter and the radio, the company has been able to establish a rather creditable earnings performance over recent years in that deficits were recorded in only two of the past ten years. Income was equal to $1.32 a share in 1939 in sharp contrast to a loss of $1.57 a share in 1938. Reflecting the steady improvement in business activity, net income in the first nine months of the present year was equal to $2.12 a share as against only 62 cents a share for the comparable 1939 period. October and November were good months and with high rates of industrial production anticipated for some time, revenues may continue upward. International business of the company has been substantially reduced by the war and will likely continue on a somewhat restricted basis for the duration of hostilities. This together with increased operating expenses and higher taxes will probably serve to offset in part the betterment in telegraph receipts. Prospects are for recent earnings gains to be further extended, although perhaps on a

DIVIDENDS AND INTEREST

more moderate scale over coming months. Because of the large amount of invested capital, the company could record sharp profits betterment before it would become liable under the new Excess Profits Taxes. Dividends have been resumed with the payment of $1.00 a share to be made on December 16 next. No rate revisions would appear to be in early prospect. In spite of longer term uncertainties, namely increasing competition and the upward trend of operating costs, we feel that with earnings improving, present positions may be maintained.

Youngstown Sheet and Tube Strengthens Position

(Continued from page 263)

duction will probably offset the imposition of somewhat higher taxes. Thus, it is expected that Youngstown Sheet & Tube will earn approximately $4.75 a share this year as compared with $2.50 a share last year and a peak for the post-depression period of $7.03 a share reported in 1936. If the company earns approximately $4.75 a share this year it will have earned about 7.95 per cent on its invested capital and will thus not be penalized for excess profits despite the fact that average annual earnings for the years 1936 to 1939 inclusive were approximately $3.44 a share. The extra tax impost will be for the higher corporation normal tax and will add approximately $0.20 a share of common stock to the company's tax burden.

While taxes are increasing the amount deducted from the stockholder's share of the earnings, the company has been successfully reducing fixed charges and otherwise reducing controllable expenses. Recent financing involved the issuance of $10,500,000 of serial bonds maturing from November, 1941, to November, 1947, and $45,000,000 of 3¼ per cent first mortgage bonds due in 1960, the proceeds of which are to be used to retire $55,500,000 principal amount of 4 per cent coupon bonds at an estimated savings of $850,000 in annual fixed charges or approximately $0.50 a share of common stock.

At the close of 1939, Youngstown Sheet & Tube was in strong financial position with a current asset radio of 6.2 to 1 and a cash total current liability ratio of 1.1 to 1. Recently good business has doubtlessly improved the company's current asset and cash position despite the fact that better than $2,000,000 in cash is needed to complete the retirement of the old bond issue. Inventories, approximately 55 per cent of total current assets, were high although justified in the face of heavy business then in hand and since accrued.

The nearer term outlook for Youngstown Sheet & Tube continues to be satisfactory. Present indications point to an unfilled order backlog of sufficient size to permit the company to maintain operations at peak of capacity through the second quarter of 1941. Inasmuch as the management has stated that the satisfactory results up to the beginning of the fourth quarter were achieved with no direct Government business there is the possibility that large volumes of such business will appear in the near term. The anticipation of the receipt of Government business of fairly large proportions is one of the avowed reasons for recent plant expansion.

Beyond the second quarter of next year the prospect becomes somewhat obscure. If preparedness plans continue unabated then it is likely that the company will continue to operate at full capacity for the remainder of next year at least. Sales will undoubtedly be larger than in any previous year since 1929 although it is not likely that profit margins will be as well maintained. The company is well fortified with ample supplies of basic raw materials but scrap steel and labor costs are likely to be higher over the longer term. The Administration will probably be of great assistance in holding scrap prices in check although it is not likely to perform an equal service in connection with labor's demands for higher wages. Added to these possibilities is also the probability that taxes will be materially higher next year and thus take a greater slice of operating income.

The strong efforts of the company to increase production capacity are indicated by the management to be purely for patriotic reasons since the management realizes that any new production capacity must be a drag upon the finances of the company once the present emergency has passed. Dividends were restored on the common stock this year with aggregate payments of $1.25 a share. This marks the second time that the common stock has shared in earnings since 1931 but payments should continue as long as the company continues to operate at a profit. In view of current conditions, it is probable that subsequent payments will be more in keeping with current earnings although such a course would be contrary to previous policy.

Farm Equipments Called to Arms

(Continued from page 261)

certainly productive of no income that can be brought home. The three Canadian and one Australian plant will, however, continue to function; and, taken together with sales of materials to other nations, all foreign profits are by no means lost.

As far as can be ascertained from published information on Government contracts, International Harvester has obtained the greatest share of the business allotted to the industry. Orders for Government materials to date are in the vicinity of $4,150,000, of which approximately $2,000,000 is for tractors, $1,000,000 for ammunition and most of the balance is for trucks. Much of this material will be delivered in 1941 and accordingly profits will appear in that year's earnings statement. Apart from Government business there is a strong demand for trucks from commercial sources. Truck manufacturing has assisted in maintaining earnings at better than average levels and in this case will help to overcome the inevitable loss of some export business. Earnings for the recent fiscal year are estimated to have been approximately $3.25 a share as compared with actual earnings of $1.71 a share a year ago. Average earnings for the past four years have been $4.20 a share and it is probable that the current year's earnings will not exceed that sum by a substantial amount. Dividends are secure and the amount will most likely continue to follow

the total earnings quite closely.

International Harvester has its truck business as a stabilizer and Allis-Chalmers depends upon its line of tractors and Diesel and other internal combustion engines to obtain the same general result. Up to date it would appear as if Allis-Chalmers has received approximately $2.5 million in Government orders and these are mostly for tractors. The orders are divided into approximately $1 million for heavy tractors, $800,000 for medium weight machines and $700,000 for light tractors. In addition to these orders there are likely to be additional orders for materials on sub-contract, especially for Diesel electrical generating equipment and the like. Sub-contracts are not reported by Government agencies since they are between private individuals and thus no accurate estimate can be made of the extent of this particular type of business.

Less than 57 per cent of Allis-Chalmers' domestic sales are accounted for by its farm equipment business while electrical equipment furnishes 23 per cent and industrial machinery 21 per cent. As opposed to the relatively heavy dependence of other farm equipment manufacturers upon foreign sales, Allis-Chalmers derives only about 5 per cent of its total business from foreign sources and its exports are increasing because of the high regard in which foreign customers hold the company's Diesel products.

Allis-Chalmers differs from other companies in the same line of business in another respect. Its fiscal year coincides with the calendar year and thus makes normal quarterly reports possible. In the first nine months of 1940 the company earned $2.12 a share as compared with $1.49 a share in the same period of last year. This figure was achieved after making full allowances for new normal taxes. Earnings for the full year will closely approximate $3.25 a share as compared with $2.09 a year ago and the backlog of unfilled orders, which were close to $32 million at the end of September, indicates that 1941 will be equally as good as this year, if not better. Dividends will continue although no certain rate can be predicted.

Oliver Farm Equipment has received the smallest share of recent government orders although the company is reputed to be one of the

best equipped to manufacture artillery tractors and gun-carriages. Reported government contracts won by Oliver amount to only $764,000 and are mostly for metal packing cases, an item which has never appeared in any list of the company's products. Oliver is primarily a tractor manufacturer, sales of which account for approximately 50 per cent of total sales volume. Threshing equipment accounts for about 13 per cent of total sales, plows and tillage equipment 25 per cent and the remainder is furnished by repair parts of supplies. With a large part of Oliver's foreign business being done in Canada, no important reduction in foreign sales is anticipated. Earnings for 1940 will be approximately $2 a share of common stock as compared with $1.27 last year although it is probable that the payment of dividends will again be deferred pending further improvement of the company's financial position, thus permitting redemption of loans whose terms have prohibited dividend payments in the past.

Office Equipments Face Moderately Better Outlook

(*Continued from page 266*)

government business although the amounts and other details have not been disclosed. It is significant, however, that the company took pains to point out that earnings for the first fiscal quarter which ended June 30, 1940, did not include government business which was just getting into production at that time. Sales in the first six months of the fiscal year were $21,736,603, 20.1 per cent higher than in the same period of a year ago. Since the company's fiscal year ends on March 31, next, excess profits taxes will not be a problem until next year.

Remington Rand's net income for the first six months which ended September 30 was $1,065,209 or equal to $0.41 a share of common stock. This compared with net income of $352,163 for the same period of the previous fiscal year, a sum that was equal to $1.90 a share of preferred stock but which left a deficit of $0.04 a share of common stock after making provisions for preferred dividend requirements. On the basis of earnings already in hand it is probable that the $0.94 a share reported for the 1939-40 fiscal year will be exceeded by a comfortable margin although there is no present indication that the annual dividend rate of $0.80 a share will be increased for the present. Business is expected to continue to increase over the next year, at least, but after March 31, 1941, the company will become vulnerable to the workings of the new tax schedules with the result that net income after all charges including taxes will probably be somewhat lower than at present despite the fact that sales will undoubtedly be higher.

The same factors that make it possible for Remington Rand to secure a large measure of government business make the prospects of International Business Machines better than average as far as sales are concerned although earnings will be relatively restricted by higher taxes. International Business Machines is unique in the office equipment field mainly because of the fact that the company depends but little upon foreign business other than Canada. Of last year's total net income only 5.1 per cent accrued from sources outside of the Western Hemisphere and this small amount will be compensated for amply by rising domestic business even should the whole of it be lost in the future.

International Business Machines makes a line of tabulating and calculating machines similar to those of Remington Rand although the company does not sell its tabulating devices but loans them to users of the company's forms and methods on a rental basis. Sales of cards to be used in the company's rented machines account for approximately 33 per cent of the income. Prior to the present time, approximately 10 per cent of the company's total sales were made to the government. Since the inception of active rearmament preparations, the proportion of government sales has increased and promises to play an important part in future business.

With rentals of machines constituting the bulk of revenues, income has been highly stable even in depression years. Last year's earnings were equal to approximately $10.12 a share of common stock, which was approximately average for the past ten years. For the first nine months of this year earnings fell moderately to $6.69 a share as compared with $7.70 a year ago but the drop was due in greatest part to the inclusion of new taxes in the calculations and the current dividend rate of $6 per annum is more than secure. The ownership of a large stock of machines necessitates the maintenance of working capital at high levels and thus limits dividend payments. The improvement in the equity of the common shares plus the fact that sizable stock dividends are often distributed without changing the basic dividend rates compensates in great measure for the size of the dividend payment as compared with actual earnings per share of common stock.

Beneficiaries of Western Hemisphere Solidarity

(*Continued from page 255*)

into individual homesteads, he is nevertheless pledged to carry out the Second Six Year Plan, which is to run from 1941 to 1946 and which is no less revolutionary and no less inflationary in its consequences than the First Six Year Plan.

If the economic situation of Mexico is not to grow worse, the flight of capital must be stopped and new capital attracted. However, as in the case of Argentina, a loan by the United States Government or the Export-Import Bank credits could not be much more than temporary relief—on a somewhat larger scale than silver purchases—but not enough to strengthen the Mexican economy. Again only increased imports of Mexican products or long-term direct investments in which American and Mexican capital would cooperate without being accused of taking advantage of working classes can bring about a more permanent improvement. There are certainly a large number of industries, such as textiles, which could be operated even on an export basis. Tourist trade too could be developed on a much larger scale. There are a number of other plans, perhaps less feasible, such as the issuing by Mexican banks of short-term bonds that would be purchased

by American banks. Still another proposal advocates that the United States through imposition of tariffs, should set up Mexico in the production of rubber and tropical fruits.

From what has been said, it may be concluded that before we can help Mexico, she must settle for herself a number of her own problems. The most urgent ones are the reorganization of the oil industry and of the national railways now administered by the labor unions. It also remains to be seen what will be the attitude of the new Administration toward the labor unions. As to our part, the trip of our Vice President-elect, Henry A. Wallace, to the inauguration of General Camacho suggests our good will toward Mexico and our willingness to discuss and settle problems between the two nations.

America's New Economic Order

(*Continued from page 248*)

in very large measure by the government—for a community purpose. I do not attempt to prophesy specifically what we may learn from it, but it would be remarkable if it did not raise the following question in the mind of the common man: If this tremendous community effort is valid for national defense, why is not a somewhat similar community effort valid for peacetime community needs?

2. Quite regardless of philosophic theories, the following facts cannot be blinked. We are going to spend untold billions for national defense. The termination of the armament boom will leave us with the choice of submitting to a major depression —there being no possibility that productive private investment can be an adequate shock absorber in that situation—or calling for more government intervention. As a people, we will not accept an economic collapse. Therefore, government spending will not stop. It will merely change in form.

No one can know how far the Federal debt will rise under the sequence of events here sketched, nor what ultimate limit of debt can be rationalized and carried without national disaster. Some in Washington contemplate with complete equanimity the possibility some years hence of a Federal debt of $125,000,000,000 or more and argue it can be handled without a runaway inflation, without a collapse of the bond market and without a complete transition from the present semi-private capitalism to full State Socialism. That, of course, remains to be seen and the test is some distance ahead.

But meanwhile it must be noted that this is not only a national defense program on which we are embarked. Simultaneously it is also the New Deal's ultimate financial-economic experiment. It will be a clinching proof for or against the pump-priming theory — the theory that by sufficiently vigorous use of the Federal tax powers and credit resources full employment and a new high level of national income will not only be attained but maintained.

3. Any way you look at it, the following conclusions seem valid: A substantially increased percentage of the earning power of corporations and of middle-class and well-to-do individuals is going to be taxed into the hands of government and spent for community purposes. As far ahead as can be seen, unit profit margins will be lower and will not be fully offset by enlarged volume, which means that, generally speaking, the net return on the invested capital of industry will be lower than in the past. The benefits of technological progress will be increasingly socialized, a smaller share than formerly going to profits, a larger share than formerly going either to labor in the form of higher wages or to consumers in the form of lower prices or increased values.

Finally, it should be obvious that the present trend of things will eventually take us either to complete State domination of our economic system or to an Americanized version of semi-socialism in which the most useful attributes of private initiative are retained and in which private enterprise and government constitute a team pulling together, complementing and supplementing each other.

I do not say that the fuzzy-headed leanings of the "common man" are taking us in the best direction. But it does seem that they are taking us in the only feasible direction. We

can deplore it and fight it bitterly. Or we can try to keep America's revolution as sane as possible. The latter course would seem the more intelligent, useful and practical.

Mack Truck Earnings on the Way Back

(*Continued from page 273*)

120 hp. These engines have no particular significance in the defense program for their power is too small for naval use although they are well suited to be used in pleasure boats and smaller work boats—for fishing, cargo, ferrying, etc. The engines are compact and economical of operation. A widespread dealer and service organization furnishes parts and repairs.

Under present circumstances, when industrial activities are at peak levels, all of the company's products are important contributors to income. Heavy duty equipment, which has long been the standby of the company, is the greatest individual contributor with buses and specialties as a probable close second. The marine Diesel department is the least productive of all although considering the size of the potential sales field and the active competition, this division of Mack Trucks is doing as well as might be expected. Larger trucks and special built vehicles will probably furnish the bulk of the business for the next year or more.

While earnings for 1941 are expected to show strong improvement, the satisfactory results for the first nine months of the current year were far from record size. Nevertheless, it is expected that the $1.95 a share of common stock reported for the period will be further expanded by at least another $1 a share for the fourth quarter and thus bring full year's results close to $3 a share as compared with $1.14 a share a year ago. The larger part of this year's earnings are from commercial sources and—according to official indications—include little if any earnings directly resulting from defense work. Next year it is probable that commercial business will be maintained at high levels while government work will increase substantially. Unless priorities are enforced for raw materials it is not likely that Mack Trucks will find it difficult to meet a very much enlarged schedule. It is also improbable that Mack will be forced to expand facilities sharply even should orders be double what they have been so far this year. At the latest appraisal, manufacturing plants had a capacity of close to 15,000 vehicles yearly as compared with sales of less than half that number in 1939.

If the new excess profits taxes were based solely upon average earnings for the past four years then Mack Trucks' would be faced with the possibility of paying some additional excess profits taxes. Average earnings for the past four years are calculated at $1.36 a share of common stock. However, by availing itself of the option to base earnings on invested capital, Mack Trucks would have to earn approximately $5 a share before excess profits rates would apply. In view of anticipated earnings of only 60 per cent of the maximum sum this year, the company will not find excess profits taxes a problem for the present. What may be in the longer term is difficult to predict since it is possible that the normal tax will be revised upward and likewise possible that next year's earnings will exceed $5 a share of common stock providing the anticipated volume of federal business appears and defense efforts continue.

During the past ten or more years the company has often operated at a deficit but in all of that time some dividend has been paid on the common shares. So far this year Mack Trucks has paid $0.50 a share of common stock as compared with a similar sum in 1939. A year end dividend of $1 a share has just been declared which brings the total up to $1.50 a share and equals that of 1937 when earnings of $2.41 a share were well below this year's estimated levels.

From a financial standpoint, Mack Trucks has always maintained a satisfactory position. At the close of 1939, total current assets of $29,354,338 were better than five times as large as total current liabilities. The current assets included cash items of $2,167,729 and installment paper—secured by chattel mortgages and due in less than one year—amounting to $9,842,881. The current liabilities were all conventional business indebtedness and did not include any bank loans or similar obligations. Net working capital of nearly $24,000,000 appeared to be adequate for the company's immediate purposes but will probably have to be increased in order to care for any sharply expanded volume of future business. With capital obligations of only 597,335 shares of no par common stock any funds needed for this purpose or for expansion of facilities should not offer any difficulty in procurement.

Most of the company's costs will be well controlled during the coming year although it is probable that labor costs will be higher and the increase proportionately greater than any other item of expense. Since truck unit prices are much greater than those of passenger vehicles, the amount of increase in selling price necessary to compensate for higher operating costs may easily be passed on to the customer and even if this is not possible, truck profit margins are generously large and will thus permit the absorption of a fairly large increase in costs without becoming strongly apparent in subsequent earnings statements.

Forthcoming Dividend Meetings

Company	Time	Date
Abraham & Strauss	3:00	*12/26
Alaska Juneau Gold Mining	11:00	12/26
American Can	2:15	12/31
Baldwin Rubber	——	*12/18
Bickford's Com. & Pfd.	3:00	*12/18
Brooklyn Trust	9:30	12/19
Car. Clinch. & Ohio Ry	9:30	*12/20
Corn Products Refining Com. & Pfd	2:00	12/27
Crowell-Collier Pub. Pfd	12:00	12/24
Detroit Steel Prod.	4:00	*12/17
Discount Corp. of N. Y.	12:00	12/18
Electric Bond & Share Pfd.	3:30	12/26
Empire Trust (N. Y.)	12:00	12/17
Federated Dept. Stores Com. & Pfd	11:30	*12/27
Fidelity Phenix Fire Ins.	2:15	12/19
Gardner Denver Com. & Pfd.	2:30	12/24
General Foods Pfd	9:30	*12/18
Hartford Elec. Light	4:00	12/24
Hecker Products	9:30	*12/26
Interstate Dept. Stores	3:00	*12/18
Jones & Laughlin Steel Pfd.	——	*12/24
Kalamazoo Stove & Furnace	——	* 1/3
Kellogg Switch'd & Supply Com. & Pfd.	——	12/17
Lee Rubber & Tire	1:30	12/26
MacAndrews & Forbes Com. & Pfd.	11:00	12/19
Mass. Investors Trust	2:00	*12/18
National City Bank (N.Y.)	1:00	* 1/7
Philadelphia Co.	12:00	*12/18
Public Service (N. J.) 6% Pfd.	3:00	12/17
Raymond Concrete Pile Com. & Pfd.	10:30	* 1/8
Reading Co.	2:00	12/24
Southern Calif. Edison	12:30	12/27
Thatcher Mfg. Pfd.	9:30	12/8
Transamerica	11:00	* 1/3
United Corp. Pfd.	2:30	*12/31
Westvaco Chlorine Prod. Pfd.	3:30	*12/26
Wilson & Co. Pfd.	12:00	*12/24

All meetings are common stock unless otherwise noted. *Approximately.

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